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Arizona Corporation Commission

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To: Docket Control

Date: November 17, 2011

Re: Goodman Water Company / Rates
W-02500A-10-0382
Volumes I through V, Concluded
July 26 through November 1, 2011

STATUS OF ORIGINAL EXHIBITS

EXHIBITS FILED WITH DOCKET CONTROL

Goodman Water Company (A Exhibits)

1 through 23

James Schoemperlen (JS Exhibits)

8, 9, 21, 41 through 44, 51, 52

Lawrence Wawrzyniak (LW Exhibits)

1 through 6, 8, 9

Lawrence Wawrzyniak (LW Exhibits)

7 Not utilized

Residential Utility Consumer Office (RUCO Exhibits)

4 Withdrawn

EXHIBITS TO BE PROVIDED

Staff (S Exhibits)

- 5 Marlin Scott's Calculation of the 1,800 customers; to be provided by Staff (see page 600 of transcript)
- 6 Third step of Marlin Scott's calculation from MSJ-1; to be provided by Staff (see page 600 of transcript)

GOODMAN WATER COMPANY



DOCKET NO. W-02500A-10-0382

DIRECT TESTIMONY
OF
WILLIAM A. RIGSBY, CRRA

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 21, 2011

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have been awarded the professional designation, Certified Rate of Return Analyst ("CRRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to my direct testimony further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations based on my
3 analysis of Goodman Water Company's ("GWC" or the "Company")
4 application for a permanent change in rates. GWC filed its application
5 with the Arizona Corporation Commission (ACC or Commission) on
6 September 17, 2010. The Company has chosen the operating period
7 ended December 31, 2009 for the test year ("Test Year") in this
8 proceeding. GWC has elected not to perform a reconstruction cost new
9 less depreciation study and is proposing that its original cost rate base be
10 treated as its fair value rate base for ratemaking purposes. Therefore
11 there is no need to perform a separate analysis to determine a fair value
12 rate of return on a fair value rate base.

13

14 Q. Briefly describe GWC.

15 A. GWC is a closely held Arizona C corporation. During the Test Year, the
16 Company provided water utility service to approximately 623 customers of
17 which 612, or 98.2 percent, were residential customers. GWC serves a
18 development known as Eagle Crest Ranch, which is located in an
19 unincorporated area of Pinal County, two miles south of Oracle Junction
20 on State Highway 77 or approximately 22 miles north of downtown
21 Tucson. The Company's present rates were established in Decision No.
22 69404, dated April 16, 2007 (RUCO was not an intervenor in the
23 proceeding).

1 Q. Please explain your role in RUCO's analysis of GWC's Application.

2 A. I reviewed GWC's Application and performed a cost of capital analysis to
3 determine a fair rate of return on the Company's invested capital. In
4 addition to my recommended capital structure, my direct testimony will
5 present my recommended cost of common equity (the Company has no
6 preferred stock) and my recommended cost of long-term debt. The
7 recommendations contained in this testimony are based on information
8 obtained from Company responses to data requests, GWC's Application,
9 and from market-based research that I conducted during my analysis.

10

11 Q. Were you also responsible for RUCO's recommendations on required
12 revenue, rate base or rate design?

13 A. No. Those aspects of the case were handled by RUCO witness Timothy
14 J. Coley and will be addressed in his direct testimony.

15

16 Q. What areas will you address in your testimony?

17 A. I will address the cost of capital issues associated with the case.

18

19 Q. Please identify the exhibits that you are sponsoring.

20 A. I am sponsoring Schedules WAR-1 through WAR-9.

21

22

23

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into six sections. First, the introduction I have just presented and second, a summary of my testimony that I am about to give. Third, I will present the findings of my cost of equity capital analysis, which utilized both the discounted cash flow ("DCF") method, and the capital asset pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of return for utilities that operate in the Arizona jurisdiction. In this third section I will also provide a brief overview of the current economic climate within which the Company is operating. Fourth, I will discuss my recommended capital structure, my recommended cost of long-term debt and my recommended weighted average cost of capital. Sixth, I will comment on the Company's cost of capital testimony. Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis, I am making the following recommendations:

1 Cost of Equity Capital – I am recommending a 9.00 percent cost of equity
2 capital. This 9.00 percent figure falls on the high side of the range of
3 results that I obtained in my cost of equity analysis, which employed both
4 the DCF and CAPM methodologies. My 9.00 percent cost of equity capital
5 is 200 basis points lower than the 11.00 percent cost of equity capital
6 being proposed by the Company and is 287 basis points higher than my
7 recommended cost of debt.

8
9 Capital Structure – I am recommending that the Commission adopt a
10 hypothetical capital structure comprised of 60.00 percent common equity
11 and 40.00 percent long-term debt as opposed to the Company-proposed
12 capital structure which is comprised of approximately 82.00 percent
13 common equity and 18.00 percent long-term debt.

14
15 Cost of Debt – I am recommending that the Commission adopt a
16 hypothetical cost of debt of 6.13 percent, which is 237 basis points lower
17 than the company-proposed 8.50 percent cost of debt and 5 basis points
18 higher than the current yield on a Baa/BBB-rated utility bond.

19
20 Weighted Average Cost of Capital – Based on the results of my
21 recommended capital structure, I am recommending a 7.85 percent cost
22 of capital for GWC, which is the weighted cost of my recommended costs
23 of common equity and debt. My recommended weighted average cost of

1 capital is 269 basis points lower than the 10.54 percent weighted average
2 cost of capital being proposed by the Company.

3
4 Q Why do you believe that RUCO's recommended 7.85 percent weighted
5 average cost of capital is an appropriate rate of return for the Company to
6 earn on its invested capital?

7 A. The 7.85 percent weighted average cost of capital figure that I am
8 recommending meets the criteria established in the landmark Supreme
9 Court cases of Bluefield Water Works & Improvement Co. v. Public
10 Service Commission of West Virginia (262 U.S. 679, 1923) and Federal
11 Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944).
12 Simply stated, these two cases affirmed that a public utility that is
13 efficiently and economically managed is entitled to a return on investment
14 that instills confidence in its financial soundness, allows the utility to attract
15 capital, and also allows the utility to perform its duty to provide service to
16 ratepayers. The rate of return adopted for the utility should also be
17 comparable to a return that investors would expect to receive from
18 investments with similar risk.

19
20 The Hope decision allows for the rate of return to cover both the operating
21 expenses and the "capital costs of the business" which includes interest
22 on debt and dividend payment to shareholders. This is predicated on the
23 belief that, in the long run, a company that cannot meet its debt obligations

1 and provide its shareholders with an adequate rate of return will not
2 continue to supply adequate public utility service to ratepayers.
3

4 Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient
5 to cover all operating and capital costs is guaranteed?

6 A. No. Neither case *guarantees* a rate of return on utility investment. What
7 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
8 with the *opportunity* to earn a reasonable rate of return on its investment.
9 That is to say that a utility, such as BVWC, is provided with the opportunity
10 to earn an appropriate rate of return if the Company's management
11 exercises good judgment and manages its assets and resources in a
12 manner that is both prudent and economically efficient.
13

14 **COST OF EQUITY CAPITAL**

15 Q. What is your final recommended cost of equity capital for BVWC?

16 A. I am recommending a cost of equity of 9.00 percent. My recommended
17 9.00 percent cost of equity figure falls on the high side of the range of
18 results derived from my DCF and CAPM analyses, which utilized a sample
19 of publicly traded water providers and a sample of natural gas local
20 distribution companies ("LDC"). The results of my DCF and CAPM
21 analyses are summarized on page 3 of my Schedule WAR-1.
22
23

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate the Company's cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e. the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the

1 stock (dividend yield) plus an expected rate of future dividend growth.

2 This is illustrated in mathematical terms by the following formula:

$$k = \frac{D_1}{P_0} + g$$

3 where: k = the required return (cost of equity, equity capitalization rate),

4 $\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

5 by dividing the expected dividend by the current market

6 price of the given share of stock, and

7 g = the expected rate of future dividend growth

8
9 This formula is the basis for the standard growth valuation model that I
10 used to determine the Company's cost of equity capital.

11
12 Q. In determining the rate of future dividend growth for the Company, what
13 assumptions did you make?

14 A. There are two primary assumptions regarding dividend growth that must
15 be made when using the DCF method. First, dividends will grow by a
16 constant rate into perpetuity, and second, the dividend payout ratio will
17 remain at a constant rate. Both of these assumptions are predicated on
18 the traditional DCF model's basic underlying assumption that a company's
19 earnings, dividends, book value and share growth all increase at the same
20 constant rate of growth into infinity. Given these assumptions, if the

dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as $g = b \times r$.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.¹

Table I

| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> | <u>Growth</u> |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Book Value | \$10.00 | \$10.40 | \$10.82 | \$11.25 | \$11.70 | 4.00% |
| Equity Return | 10% | 10% | 10% | 10% | 10% | N/A |
| Earnings/Sh. | \$1.00 | \$1.04 | \$1.082 | \$1.125 | \$1.170 | 4.00% |
| Payout Ratio | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | N/A |
| Dividend/Sh | \$0.60 | \$0.624 | \$0.649 | \$0.675 | \$0.702 | 4.00% |

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of \$10.00 per share, an investor-expected equity return of ten

¹ Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

1 percent, and a dividend payout ratio of sixty percent. This results in
2 earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return)
3 and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during
4 Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's
5 earnings are retained as opposed to being paid out to investors, book
6 value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I
7 presents the results of this continuing scenario over the remaining five-
8 year period.

9
10 The results displayed in Table I demonstrate that under "steady-state" (i.e.
11 constant) conditions, book value, earnings and dividends all grow at the
12 same constant rate. The table further illustrates that the dividend growth
13 rate, as discussed earlier, is a function of (1) the internally generated
14 funds or earnings that are retained by a company to become new equity,
15 and (2) the return that an investor earns on that new equity. The DCF
16 dividend growth rate, expressed as $g = b \times r$, is also referred to as the
17 internal or sustainable growth rate.

18
19 Q. If earnings and dividends both grow at the same rate as book value,
20 shouldn't that rate be the sole factor in determining the DCF growth rate?

21 A. No. Possible changes in the expected rate of return on either common
22 equity or the dividend payout ratio make earnings and dividend growth by

themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> | <u>Growth</u> |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Book Value | \$10.00 | \$10.40 | \$10.82 | \$11.47 | \$12.158 | 5.00% |
| Equity Return | 10% | 10% | 15% | 15% | 15% | 10.67% |
| Earnings/Sh | \$1.00 | \$1.04 | \$1.623 | \$1.720 | \$1.824 | 16.20% |
| Payout Ratio | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | N/A |
| Dividend/Sh | \$0.60 | \$0.624 | \$0.974 | \$1.032 | \$1.094 | 16.20% |

In the example displayed in Table II, a sustainable growth rate of four percent² exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.³ If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rate for earnings and dividends, displayed in the last column, is 16.20 percent. If this rate was to be used in the DCF model, the utility's return on common equity would be expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

² [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [(\$1.04 - \$1.00) ÷ \$1.00] = [\$0.04 ÷ \$1.00] = 4.00%

³ [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = 6.00%

1 Although it is not illustrated in Mr. Hill's hypothetical example, a change in
2 only the dividend payout ratio will eventually result in a utility paying out
3 more in dividends than it earns. While it is not uncommon for a utility in
4 the real world to have a dividend payout ratio that exceeds one hundred
5 percent on occasion, it would be unrealistic to expect the practice to
6 continue over a sustained long-term period of time.

7
8 Q. Other than the retention of internally generated funds, as illustrated in Mr.
9 Hill's hypothetical example, are there any other sources of new equity
10 capital that can influence an investor's growth expectations for a given
11 company?

12 A. Yes, a company can raise new equity capital externally. The best
13 example of external funding would be the sale of new shares of common
14 stock. This would create additional equity for the issuer and is often the
15 case with utilities that are either in the process of acquiring smaller
16 systems or providing service to rapidly growing areas.

17
18 Q. How does external equity financing influence the growth expectations held
19 by investors?

20 A. Rational investors will put their available funds into investments that will
21 either meet or exceed their given cost of capital (i.e. the return earned on
22 their investment). In the case of a utility, the book value of a company's
23 stock usually mirrors the equity portion of its rate base (the utility's earning

1 base). Because regulators allow utilities the opportunity to earn a
2 reasonable rate of return on rate base, an investor would take into
3 consideration the effect that a change in book value would have on the
4 rate of return that he or she would expect the utility to earn. If an investor
5 believes that a utility's book value (i.e. the utility's earning base) will
6 increase, then he or she would expect the return on the utility's common
7 stock to increase. If this positive trend in book value continues over an
8 extended period of time, an investor would have a reasonable expectation
9 for sustained long-term growth.

10
11 Q. Please provide an example of how external financing affects a utility's
12 book value of equity.

13 A. As I explained earlier, one way that a utility can increase its equity is by
14 selling new shares of common stock on the open market. If these new
15 shares are purchased at prices that are higher than those shares sold
16 previously, the utility's book value per share will increase in value. This
17 would increase both the earnings base of the utility and the earnings
18 expectations of investors. However, if new shares sold at a price below
19 the pre-sale book value per share, the after-sale book value per share
20 declines in value. If this downward trend continues over time, investors
21 might view this as a decline in the utility's sustainable growth rate and will
22 have lower expectations regarding growth. Using this same logic, if a new
23 stock issue sells at a price per share that is the same as the pre-sale book

1 value per share, there would be no impact on either the utility's earnings
2 base or investor expectations.

3
4 Q. Please explain how the external component of the DCF growth rate is
5 determined.

6 A. In his book, *The Cost of Capital to a Public Utility*,⁴ Dr. Gordon (the
7 individual responsible for the development of the DCF or constant growth
8 model) identified a growth rate that includes both expected internal and
9 external financing components. The mathematical expression for Dr.
10 Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

11
12
13 where: g = DCF expected growth rate,
14 b = the earnings retention ratio,
15 r = the return on common equity,
16 s = the fraction of new common stock sold that
17 accrues to a current shareholder, and
18 v = funds raised from the sale of stock as a fraction
19 of existing equity.

$$\text{and } v = 1 - [(BV) \div (MP)]$$

20
21 where: BV = book value per share of common stock, and
22 MP = the market price per share of common stock.

⁴ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

1 Q. Did you include the effect of external equity financing on long-term growth
2 rate expectations in your analysis of expected dividend growth for the DCF
3 model?

4 A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of
5 Schedule WAR-4, where it is added to the internal growth rate estimate
6 (br) to arrive at a final sustainable growth rate estimate.

7
8 Q. Please explain why your calculation of external growth on page 2 of
9 Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in
10 the equation $[(M \div B) + 1] \div 2$.

11 A. The market price of a utility's common stock will tend to move toward book
12 value, or a market-to-book ratio of 1.0, if regulators allow a rate of return
13 that is equal to the cost of capital (one of the desired effects of regulation).
14 As a result of this situation, I used $[(M \div B) + 1] \div 2$ as opposed to the
15 current market-to-book ratio by itself to represent investor's expectations
16 that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

17
18 Q. Has the Commission ever adopted a cost of capital estimate that included
19 this assumption?

20 A. Yes. In a prior Southwest Gas Corporation rate case⁵, the Commission
21 adopted the recommendations of ACC Staff's cost of capital witness,
22 Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill

⁵ Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

1 used the same methods that I have used in arriving at the inputs for the
2 DCF model. His final recommendation for Southwest Gas Corporation
3 was largely based on the results of his DCF analysis, which incorporated
4 the same valid market-to-book ratio assumption that I have used
5 consistently in the DCF model as a cost of capital witness for RUCO.

6
7 Q. How did you develop your dividend growth rate estimate?

8 A. I analyzed data on two separate proxy groups. A water company proxy
9 group comprised of three publicly traded water companies and a natural
10 gas proxy group consisting of nine natural gas local distribution companies
11 ("LDC") that have similar operating characteristics to water providers.

12
13 Q. Why did you use a proxy group methodology as opposed to a direct
14 analysis of the Company?

15 A. One of the problems in performing this type of analysis is that the utility
16 applying for a rate increase is not always a publicly traded company, as is
17 the case with GWC. Consequently it was necessary to create a proxy by
18 analyzing publicly traded water companies and LDC's with similar risk
19 characteristics.

20
21 Q. Are there any other advantages to the use of a proxy?

22 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
23 decision that a utility is entitled to earn a rate of return that is

1 commensurate with the returns on investments of other firms with
2 comparable risk. The proxy technique that I have used derives that rate of
3 return. One other advantage to using a sample of companies is that it
4 reduces the possible impact that any undetected biases, anomalies, or
5 measurement errors may have on the DCF growth estimate.

6
7 Q. What criteria did you use in selecting the companies that make up your
8 water company proxy for the Company?

9 A. The three water companies used in the proxy are publicly traded on the
10 New York Stock Exchange ("NYSE"). All three water companies are
11 followed by The Value Line Investment Survey ("Value Line") and are the
12 same companies that comprise Value Line's large capitalization Water
13 Utility Industry segment of the U.S. economy (Attachment A contains
14 Value Line's January 22, 2010 update of the water utility industry and
15 evaluations of the water companies used in my proxy).

16
17 Q. Are these the same water utilities that you have used in prior rate case
18 proceedings?

19 A. Yes. However, in prior proceedings I have also included a fourth water
20 provider known as Southwest Water Company ("SWWC") which is traded
21 over the counter through the National Association of Securities Dealers
22 Automated Quotation System ("NASDAQ").

1 Q. Why did you exclude SWWC from your sample in this proceeding?

2 A. On March 3, 2010 SWWC announced that it had entered into a definitive
3 merger agreement to be acquired for approximately \$275 million in cash,
4 or \$11.00 per share (almost 2.5 times SWWC's 2009 book value per
5 share), by institutional investors advised by J.P. Morgan Asset
6 Management and Water Asset Management L.L.C. As a result of this
7 situation, the Company's stock price is being driven by the offer price and
8 is no longer suitable for use in my sample.

9

10 Q. Please describe the companies that comprise your water company proxy
11 group.

12 A. My water company proxy group includes American States Water
13 Company (stock ticker symbol "AWR"), California Water Service Group
14 ("CWT") and Aqua America, Inc. ("WTR"). Each of these water companies
15 face the same types of risk that the Company faces. For the sake of
16 brevity, I will refer to each of these companies by their appropriate stock
17 ticker symbols henceforth.

18

19 Q. Briefly describe the areas served by the companies in your water
20 company sample proxy.

21 A. In addition to providing water service to residents of Fountain Hills,
22 Arizona through its wholly owned subsidiary Chaparral City Water
23 Company, AWR also serves communities located in Los Angeles, Orange

1 and San Bernardino counties in California. CWT provides service to
2 customers in seventy-five communities in California, New Mexico and
3 Washington. CWT's principal service areas are located in the San
4 Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys
5 and parts of Los Angeles. WTR is a holding company for a large number
6 of water and wastewater utilities operating in nine different states including
7 Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas,
8 Florida and Kentucky.

9
10 Q. Are these the same water companies that were used in GWC's
11 Application?

12 A. The Company's cost of equity witness, Mr. Thomas J. Bourassa, used the
13 same water companies included in my proxy. Mr. Bourassa also used
14 three other water companies in his cost of capital analysis⁶ which are
15 included in Value Line's Small and Mid Cap Edition.

16
17 Q. Why did you exclude the water companies that are followed in Value
18 Line's Small and Mid Cap Edition in your cost of common equity analysis?

19 A. Value Line does not provide the same type of forward-looking information
20 (i.e. long-term estimates on return on common equity and share growth)
21 on small and mid-cap companies that it provides on the three water

⁶ Connecticut Water Service, Inc., Middlesex Water Company and SJW Corp.

1 companies that I used in my proxy. Consequently these water providers
2 are not as suitable as the ones that I have used in my analysis.

3
4 Q. What criteria did you use in selecting the natural gas LDC's included in
5 your proxy for the Company?

6 A. As are the water companies that I just described, each of the natural gas
7 LDC's used in the proxy are publicly traded on a major stock exchange (all
8 nine trade on the NYSE) and are followed by Value Line. Each of the nine
9 LDC's in my sample are tracked in Value Line's natural gas Utility industry
10 segment. All of the companies in the proxy are engaged in the provision
11 of regulated natural gas distribution services. Attachment B of my
12 testimony contains Value Line's most recent evaluation of the natural gas
13 proxy group that I used for my cost of common equity analysis.

14
15 Q. What companies are included your natural gas proxy?

16 A. The nine natural gas LDC's included in my proxy (and their NYSE ticker
17 symbols) are AGL Resources, Inc. ("AGL"), Atmos Energy Corp. ("ATO"),
18 Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"),
19 Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company
20 ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation
21 ("SWX"), which is the dominant natural gas provider in Arizona, and WGL
22 Holdings, Inc. ("WGL").

1 Q. Are these the same LDC's that you have used in prior rate case
2 proceedings?

3 A. Yes, I have used these same LDC's in prior cases including the most
4 recent UNS Gas, Inc. proceeding.⁷ However, in those prior proceedings I
5 also included a tenth natural gas provider known as Nicor, Inc. ("GAS").
6 Nicor, Inc. is currently being acquired by AGL Resources, Inc. and, as with
7 Southwest Water Company, Nicor's stock price is now being driven by the
8 aforementioned acquisition. For this reason I've dropped Nicor, Inc. from
9 my LDC proxy group.

10
11 Q. Briefly describe the regions of the U.S. served by the nine natural gas
12 LDC's that make up your sample proxy.

13 A. The nine LDC's listed above provide natural gas service to customers in
14 the Middle Atlantic region (i.e. NJI which serves portions of northern New
15 Jersey, SJI which serves southern New Jersey and WGL which serves the
16 Washington D.C. metro area), the Southeast and South Central portions
17 of the U.S. (i.e. AGL which serves Virginia, southern Tennessee and the
18 Atlanta, Georgia area and PNY which serves customers in North Carolina,
19 South Carolina and Tennessee), the South, deep South and Midwest (i.e.
20 ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas,
21 Colorado and Kansas, LG which serves the St. Louis area), and the

⁷ Docket No. G-04204A-06-0463

1 Pacific Northwest (i.e. NWN which serves Washington state and Oregon).

2 Portions of Arizona, Nevada and California are served by SWX.

3
4 Q. Did the Company's witness also perform a similar analysis using natural
5 gas LDC's?

6 A. No, he did not.

7
8 Q. Please explain your DCF growth rate calculations for the sample
9 companies used in your proxy.

10 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
11 growth rates, book values per share, numbers of shares outstanding, and
12 the compounded share growth for each of the utilities included in the
13 sample for the historical observation period 2005 to 2009 for the water
14 utilities and 2006 to 2010 for the LDC's. Schedule WAR-5 also includes
15 Value Line's projected 2010, 2011 and 2013-15 values for the retention
16 ratio, equity return, book value per share growth rate, and number of
17 shares outstanding for the water utilities and the same data projections
18 over 2011, 2012 and 2014-16 for the LDC's.

19
20 Q. Please describe how you used the information displayed in Schedule
21 WAR-5 to estimate each comparable utility's dividend growth rate.

22 A. In explaining my analysis, I will use AWR as an example. The first
23 dividend growth component that I evaluated was the internal growth rate.

1 I used the "b x r" formula (described on pages 11 and 12) to multiply
2 AWR's earned return on common equity by its earnings retention ratio for
3 each year in the 2005 to 2009 observation period to derive the utility's
4 annual internal growth rates. I used the mean average of this five-year
5 period as a benchmark against which I compared the projected growth
6 rate trends provided by Value Line. Because an investor is more likely to
7 be influenced by recent growth trends, as opposed to historical averages,
8 the five-year mean noted earlier was used only as a benchmark figure. As
9 shown on Schedule WAR-5, Page 1, AWR's average internal growth rate
10 of 3.04 percent over the 2005 to 2009 time frame reflects an up and down
11 pattern of growth that ranged from a low of 2.56 percent in 2006 to a high
12 of 3.79 percent during 2007. Value Line is predicting that growth will
13 increase steadily from 3.09 percent in 2009, to 6.49 percent by the end of
14 the 2013-15 time frame. After weighing Value Line's projections on
15 earnings and dividend growth, I believe that a 6.50% rate of growth is
16 reasonable for AWR (Schedule WAR-4, Page 1 of 2).

17
18 Q. Please continue with the external growth rate component portion of your
19 analysis.

20 A. Schedule WAR-5 demonstrates that the number of shares outstanding for
21 AWR increased from 16.80 million to 18.53 million from 2005 to 2009.
22 Value Line is predicting that this level will increase from 18.53 million in
23 2009 to 20.00 million by the end of 2015. Based on this data, I believe

1 that a 1.25 percent growth in shares is not unreasonable for AWR (Page 2
2 of Schedule WAR-4). My final dividend growth rate estimate for AWR is
3 6.91 percent (6.50 percent internal growth + 0.41 percent external growth)
4 and is shown on Page 1 of Schedule WAR-4.

5
6 Q. What is your average DCF dividend growth rate estimate for your sample
7 of water utilities?

8 A. My average DCF dividend growth rate estimate for my water company
9 sample is 6.08 percent as displayed on page 1 of Schedule WAR-4.

10
11 Q. Did you use the same approach to determine an average dividend growth
12 rate for your proxy of natural gas LDC's?

13 A. Yes.

14
15 Q. What is your average DCF dividend growth rate estimate for the sample
16 natural gas utilities?

17 A. My average DCF dividend growth rate estimate is 5.52 percent, which is
18 also displayed on page 1 of Schedule WAR-4.

19
20
21
22 ...

1 Q. How does your average dividend growth rate estimates on water
2 companies compare to the growth rate data published by Value Line and
3 other analysts?

4 A. Schedule WAR-6 compares my growth estimates with the five-year
5 projections of analysts at both Zacks Investment Research, Inc. ("Zacks")
6 (Attachment C) and Value Line. In the case of the water companies, my
7 6.08 percent estimate exceeds Zacks' average long-term EPS projection
8 of 6.00 percent and Value Line's growth projection of 4.86 percent (which
9 is an average of EPS, DPS and BVPS). My 6.08 percent estimate is 41
10 basis points higher than the 5.67 percent average of Value Line's
11 historical growth results and 71 basis points higher than the average of the
12 growth data published by Value Line and Zacks. My 6.08 percent growth
13 estimate is also 107 basis points higher than Value Line's 5.01 percent 5-
14 year compound historical average of EPS, DPS and BVPS. The
15 estimates of analysts at Value Line indicate that investors are expecting
16 somewhat higher performance from the water utility industry in the future
17 given their 8.00 percent to 9.00 percent return on book common equity
18 over the 2010 to 2015 period (Attachment A). On balance, I would say my
19 6.08 percent estimate is a good representation of the growth projections
20 that are available to the investing public.

21
22 ...
23

1 Q. How do your average dividend growth rate estimates on natural gas LDC's
2 compare to the growth rate data published by Value Line and other
3 analysts?

4 A. In regard to the natural gas LDC's, my 5.52 percent estimate exceeds the
5 average 4.69 percent long-term EPS consensus projections published by
6 Zacks, and the 4.28 percent Value Line projected estimate (which is an
7 average of EPS, DPS and BVPS) by 83 to 124 basis points. As can also
8 be seen on Schedule WAR-6, the 5.52 percent estimate that I have
9 calculated is 123 basis points higher than the 4.29 percent average of the
10 5-year historic EPS, DPS and BVPS means of Value Line. In fact, my
11 5.52 percent estimate is 63 basis points higher than the combined 4.89
12 percent Value Line and Zacks averages displayed in Schedule WAR-6. In
13 the case of the LDC's I would say that my 5.52 percent estimate, which is
14 higher than both Zacks' and Value Line's forecasts, is also a reasonable
15 representation of the growth projections presented by securities analysts
16 at this point in time.

17
18 Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

19 A. For both the water companies and the natural gas LDC's I used the
20 estimated annual dividends, for the next twelve-month period, that
21 appeared in Value Line's January 21, 2011 Ratings and Reports water
22 utility industry update and Value Line's March 11, 2011 Ratings and
23 Reports natural gas utility update. I then divided those figures by the

1 eight-week average daily adjusted closing price per share of the
2 appropriate utility's common stock. The eight-week observation period ran
3 from January 3, 2011 to February 25, 2011, and the average dividend
4 yields were 3.01 percent and 3.79 percent for the water companies and
5 natural gas LDC's respectively.

6
7 Q. Based on the results of your DCF analysis, what is your cost of equity
8 capital estimate for the water and natural gas utilities included in your
9 sample?

10 A. As shown on Schedule WAR-2, the cost of equity capital derived from my
11 DCF analysis is 9.09 percent for the water utilities and 9.31 percent for the
12 natural gas LDC's.

13
14 **Capital Asset Pricing Model (CAPM) Method**

15 Q. Please explain the theory behind CAPM and why you decided to use it as
16 an equity capital valuation method in this proceeding.

17 A. CAPM is a mathematical tool that was developed during the early 1960's
18 by William F. Sharpe⁸, the Timken Professor Emeritus of Finance at
19 Stanford University, who shared the 1990 Nobel Prize in Economics for
20 research that eventually resulted in the CAPM model. CAPM is used to
21 analyze the relationships between rates of return on various assets and

⁸ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

1 risk as measured by beta.⁹ In this regard, CAPM can help an investor to
2 determine how much risk is associated with a given investment so that he
3 or she can decide if that investment meets their individual preferences.
4 Finance theory has always held that as the risk associated with a given
5 investment increases, so should the expected rate of return on that
6 investment and vice versa. According to CAPM theory, risk can be
7 classified into two specific forms: nonsystematic or diversifiable risk, and
8 systematic or non-diversifiable risk. While nonsystematic risk can be
9 virtually eliminated through diversification (i.e. by including stocks of
10 various companies in various industries in a portfolio of securities),
11 systematic risk, on the other hand, cannot be eliminated by diversification.
12 Thus, systematic risk is the only risk of importance to investors. Simply
13 stated, the underlying theory behind CAPM is that the expected return on
14 a given investment is the sum of a risk-free rate of return plus a market
15 risk premium that is proportional to the systematic (non-diversifiable risk)
16 associated with that investment. In mathematical terms, the formula is as
17 follows:

⁹ Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

$$k = r_f + [\beta (r_m - r_f)]$$

where: k = the expected return of a given security,
 r_f = risk-free rate of return,
 β = beta coefficient, a statistical measurement of a
security's systematic risk,
 r_m = average market return (e.g. S&P 500), and
 $r_m - r_f$ = market risk premium.

Q. What types of financial instruments are generally used as a proxy for the risk-free rate of return in the CAPM model?

A. Generally speaking, the yields of U.S. Treasury instruments are used by analysts as a proxy for the risk-free rate of return component.

Q. Please explain why U.S. Treasury instruments are regarded as a suitable proxy for the risk-free rate of return?

A. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments (Attachment D) will reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate

1 components,¹⁰ a real rate of interest (believed to be approximately 2.00
2 percent) and an inflationary expectation. When the real rate of interest is
3 subtracted from the total treasury yield, all that remains is the inflationary
4 expectation. Because increased inflation represents a potential capital
5 loss, or risk, to investors, a higher inflationary expectation by itself
6 represents a degree of risk to an investor. Another way of looking at this
7 is from an opportunity cost standpoint. When an investor locks up funds in
8 long-term T-Bonds, compensation must be provided for future investment
9 opportunities foregone. This is often described as maturity or interest rate
10 risk and it can affect an investor adversely if market rates increase before
11 the instrument matures (a rise in interest rates would decrease the value
12 of the debt instrument). As discussed earlier in the DCF portion of my
13 testimony, this compensation translates into higher rates of returns to the
14 investor.

15
16 Q. What security did you use for a risk-free rate of return in your CAPM
17 analysis?

18 A. I used an eight-week average of the yield on a 5-year U.S. Treasury
19 instrument. The yields were published in Value Line's Selection and
20 Opinion publication dated January 21, 2011 through March 11, 2011

¹⁰ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

(Attachment D). This resulted in a risk-free (r_f) rate of return of 2.13 percent.

Q. Why did you use the yield on a 5-year year U.S. Treasury instrument as opposed to a short-term T-Bill?

A. While a shorter term instrument, such as a 91-day T-Bill, presents the lowest possible total risk to an investor, a good argument can be made that the yield on an instrument that matches the investment period of the asset being analyzed in the CAPM model should be used as the risk-free rate of return. Since utilities in Arizona generally file for rates every three to five years, the yield on a 5-year U.S. Treasury Instrument closely matches the investment period or, in the case of regulated utilities, the period that new rates will be in effect.

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical total returns on the S&P 500 index from 1926 to 2009 as the proxy for the market rate of return (r_m). For the risk-free portion of the risk premium component (r_f), I used the geometric mean of the total returns of intermediate-term government bonds for the same eighty-three year period. The market risk premium ($r_m - r_f$) that results by using the geometric mean of these inputs is 4.50 percent ($9.80\% - 5.30\% = \underline{4.50\%}$).

1 The market risk premium that results by using the arithmetic mean
2 calculation is 6.30 percent ($11.80\% - 5.50\% = \underline{6.30\%}$).

3
4 Q. How did you select the beta coefficients that were used in your CAPM
5 analysis?

6 A. The beta coefficients (β), for the individual utilities used in both my
7 proxies, were calculated by Value Line and were current as of January 21,
8 2011 for the water companies and March 11, 2011 for the natural gas
9 LDC's. Value Line calculates its betas by using a regression analysis
10 between weekly percentage changes in the market price of the security
11 being analyzed and weekly percentage changes in the NYSE Composite
12 Index over a five-year period. The betas are then adjusted by Value Line
13 for their long-term tendency to converge toward 1.00. The beta
14 coefficients for the service providers included in my water company
15 sample ranged from 0.65 to 0.80 with an average beta of 0.72. The beta
16 coefficients for the LDC's included in my natural gas sample ranged from
17 0.60 to 0.75 with an average beta of 0.66.

18
19 Q. What are the results of your CAPM analysis?

20 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
21 using a geometric mean to calculate the risk premium results in an
22 average expected return of 5.35 percent for the water companies and 5.10
23 percent for the natural gas LDC's. My calculation using an arithmetic

mean results in an average expected return of 6.64 percent for the water companies and 6.29 percent for the natural gas LDC's.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

| <u>METHOD</u> | <u>RESULTS</u> |
|--------------------------|----------------|
| DCF (Water Sample) | 9.09% |
| DCF (Natural Gas Sample) | 9.31% |
| CAPM (Water Sample) | 5.35% – 6.64% |
| CAPM (Natural Gas) | 5.10% – 6.29% |

Based on these results, my best estimate of an appropriate range for a cost of common equity for the Company is 5.10 percent to 9.31 percent. My final recommended cost of common equity figure is 9.00 percent.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 11.00 percent cost of equity capital proposed by the Company is 200 basis points higher than the 9.00 percent cost of equity capital that I am recommending.

1 Q How did you arrive at your final recommended 9.00 percent cost of
2 common equity?

3 A. My recommended 9.00 percent cost of common equity falls on the high
4 side of the range of estimates obtained from my DCF and CAPM
5 analyses. As I will discuss in more detail in the next section of my
6 testimony, my final estimate takes into consideration current interest rates
7 (as the cost of equity moves in the same direction as interest rates), the
8 improving state of the national economy, which began in the later part of
9 2009, and a rejuvenated stock market. My final estimate also takes into
10 consideration a general belief among economists and market analysts that
11 the U.S. Federal Reserve will begin raising interest rates as the economy
12 continues to improve (although there is no firm estimate as to when that
13 may occur). I also took into consideration information on Arizona's
14 economy and current rate of unemployment in making my final cost of
15 equity estimate.

16
17 **Current Economic Environment**

18 Q. Please explain why it is necessary to consider the current economic
19 environment when performing a cost of equity capital analysis for a
20 regulated utility.

21 A. Consideration of the economic environment is necessary because trends
22 in interest rates, present and projected levels of inflation, and the overall
23 state of the U.S. economy determine the rates of return that investors earn

1 on their invested funds. Each of these factors represent potential risks
2 that must be weighed when estimating the cost of equity capital for a
3 regulated utility and are, most often, the same factors considered by
4 individuals who are also investing in non-regulated entities.

5
6 Q. Please describe your analysis of the current economic environment.

7 A. My analysis begins with a review of the economic events that have
8 occurred between 1990 and the present in order to provide a background
9 on how we got to where we are now. It also describes how the Board of
10 Governors of the Federal Reserve System ("Federal Reserve" or "Fed")
11 and its Federal Open Market Committee ("FOMC") used its interest rate-
12 setting authority to stimulate the economy by cutting interest rates during
13 recessionary periods and by raising interest rates to control inflation during
14 times of robust economic growth. Schedule WAR-8 displays various
15 economic indicators and other data that I will refer to during this portion of
16 my testimony.

17
18 In 1991, as measured by the most recently revised annual change in
19 gross domestic product ("GDP"), the U.S. economy experienced a rate of
20 growth of negative 0.20 percent. This decline in GDP marked the
21 beginning of a mild recession that ended sometime before the end of the
22 first half of 1992. Reacting to this situation, the Federal Reserve, then
23 chaired by noted economist Alan Greenspan, lowered its benchmark

1 federal funds rate¹¹ in an effort to further loosen monetary constraints - an
2 action that resulted in lower interest rates.

3
4 During this same period, the nation's major money center banks followed
5 the Federal Reserve's lead and began lowering their interest rates as well.
6 By the end of the fourth quarter of 1993, the prime rate (the rate charged
7 by banks to their best customers) had dropped to 6.00 percent from a
8 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
9 rate on loans to its member banks had fallen to 3.00 percent and short-
10 term interest rates had declined to levels that had not been seen since
11 1972.

12
13 Although GDP increased in 1992 and 1993, the Federal Reserve took
14 steps to increase interest rates beginning in February of 1994, in order to
15 keep inflation under control. By the end of 1995, the Federal discount rate
16 had risen to 5.21 percent. Once again, the banking community followed
17 the Federal Reserve's moves. The Fed's strategy, during this period, was
18 to engineer a "soft landing." That is to say that the Federal Reserve
19 wanted to foster a situation in which economic growth would be stabilized
20 without incurring either a prolonged recession or runaway inflation.

¹¹ This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

1 Q. Did the Federal Reserve achieve its goals during this period?

2 A. Yes. The Fed's strategy of decreasing interest rates to stimulate the
3 economy worked. The annual change in GDP began an upward trend in
4 1992. A change of 4.50 percent and 4.20 percent were recorded at the
5 end of 1997 and 1998 respectively. Based on daily reports that were
6 presented in the mainstream print and broadcast media during most of
7 1999, there appeared to be little doubt among both economists and the
8 public at large that the U.S. was experiencing a period of robust economic
9 growth highlighted by low rates of unemployment and inflation. Investors,
10 who believed that technology stocks and Internet company start-ups (with
11 little or no history of earnings) had high growth potential, purchased these
12 types of issues with enthusiasm. These types of investors, who exhibited
13 what former Chairman Greenspan described as "irrational exuberance,"
14 pushed stock prices and market indexes to all time highs from 1997 to
15 2000. Over the next ten years, the FOMC continued to stimulate the
16 economy and keep inflation in check by raising and lowering the federal
17 funds rate.

18
19 Q. How did the U.S. economy fare between 2001 and 2007?

20 A. The U.S. economy entered into a recession near the end of the first
21 quarter of 2001. The bullish trend, which had characterized the last half of
22 the 1990's, had already run its course sometime during the third quarter of
23 2000. Disappointing economic data releases, since the beginning of

1 2001, preceded the September 11, 2001 terrorist attacks on the World
2 Trade Center and the Pentagon which are now regarded as a defining
3 point during this economic slump. From January 2001 to June 2003 the
4 Federal Reserve cut interest rates a total of thirteen times in order to
5 stimulate growth. During this period, the federal funds rate fell from 6.50
6 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004
7 and raised the federal funds rate 25 basis points to 1.25 percent. From
8 June 29, 2004 to January 31, 2006, the FOMC raised the federal funds
9 rate thirteen more times to a level of 4.50 percent during a period in which
10 the economic picture turned considerably brighter as both Inflation and
11 unemployment fell, wages increased and the overall economy, despite
12 continued problems in housing, grew briskly.¹²

13
14 The FOMC's January 31, 2006 meeting marked the final appearance of
15 Alan Greenspan, who had presided over the rate setting body for a total of
16 eighteen years. On that same day, Greenspan's successor, Ben
17 Bernanke, the former chairman of the President's Council of Economic
18 Advisers, and a former Fed governor under Greenspan from 2002 to
19 2005, was confirmed by the U.S. Senate to be the new Federal Reserve
20 chief. As expected by Fed watchers, Chairman Bernanke picked up
21 where his predecessor left off and increased the federal funds rate by 25
22 basis points during each of the next three FOMC meetings for a total of

¹² Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 seventeen consecutive rate increases since June 2004, and raising the
2 federal funds rate to a level of 5.25 percent. The Fed's rate increase
3 campaign finally came to a halt at the FOMC meeting held on August 8,
4 2006, when the FOMC decided not to raise rates. Once again, the Fed
5 managed to engineer a soft landing.

6
7 Q. What has been the state of the economy since 2007?

8 A. Reports in the mainstream financial press during the majority of 2007
9 reflected the view that the U.S. economy was slowing as a result of a
10 worsening situation in the housing market and higher oil prices. The
11 overall outlook for the economy was one of only moderate growth at best.
12 Also during this period the Fed's key measure of inflation began to exceed
13 the rate setting body's comfort level.

14
15 On August 7, 2007, the beginning of what is now being referred to as the
16 Great Recession; the FOMC decided not to increase or decrease the
17 federal funds rate for the ninth straight time and left its target rate
18 unchanged at 5.25 percent.¹³ At the time of the Fed's decision, analysts
19 speculated that a rate cut over the next several months was unlikely given
20 the Fed's concern that inflation would fail to moderate. However, during
21 this same period, evidence of an even slower economy and a possible

¹³ Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

1 recession was beginning to surface. Within days of the Fed's decision to
2 stand pat on rates, a borrowing crisis rooted in a deterioration of the
3 market for subprime mortgages and securities linked to them, forced the
4 Fed to inject \$24 billion in funds (raised through its open market
5 operations) into the credit markets.¹⁴ By Friday, August 17, 2007, after a
6 turbulent week on Wall Street, the Fed made the decision to lower its
7 discount rate (i.e. the rate charged on direct loans to banks) by 50 basis
8 points, from 6.25 percent to 5.75 percent, and took steps to encourage
9 banks to borrow from the Fed's discount window in order to provide
10 liquidity to lenders. According to an article that appeared in the August 18,
11 2007 edition of The Wall Street Journal,¹⁵ the Fed had used all of its tools
12 to restore normalcy to the financial markets. If the markets failed to settle
13 down, the Fed's only weapon left was to cut the Federal Funds rate –
14 possibly before the next FOMC meeting scheduled on September 18,
15 2007.

16
17 Q. Did the Fed cut rates as a result of the subprime mortgage borrowing
18 crises?

19 A. Yes. At its regularly scheduled meeting on September 18, 2007, the
20 FOMC surprised the investment community and cut both the federal funds
21 rate and the discount rate by 50 basis points (25 basis points more than

¹⁴ Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

¹⁵ Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

1 what was anticipated). This brought the federal funds rate down to a level
2 of 4.75 percent. The Fed's action was seen as an effort to curb the
3 aforementioned slowdown in the economy. Over the course of the next
4 four months, the FOMC reduced the Federal funds rate by a total 175
5 basis points to a level of 3.00 percent – mainly as a result of concerns that
6 the economy was slipping into a recession. This included a 75 basis point
7 reduction that occurred one week prior to the FOMC's meeting on January
8 29, 2008.

9
10 Q. What actions has the Fed taken in regard to interest rates since the
11 beginning of 2008?

12 A. The Fed made two more rate cuts which included a 75 basis point
13 reduction in the federal funds rate on March 18, 2008 and an additional 25
14 basis point reduction on April 30, 2008. The Fed's decision to cut rates
15 was based on its belief that the slowing economy was a greater concern
16 than the current rate of inflation (which the majority of FOMC members
17 believed would moderate during the economic slowdown).¹⁶ As a result of
18 the Fed's actions, the federal funds rate was reduced to a level of 2.00
19 percent. From April 30, 2008 through September 16, 2008, the Fed took
20 no further action on its key interest rate. However, the days before and
21 after the Fed's September 16, 2008 meeting saw longstanding Wall Street

¹⁶ Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal,
March 19, 2008

1 firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of
2 their subprime holdings. By the end of the week, the Bush administration
3 had announced plans to deal with the deteriorating financial condition
4 which had now become a worldwide crisis. The administrations actions
5 included former Treasury Secretary Henry Paulson's request to Congress
6 for \$700 billion to buy distressed assets as part of a plan to halt what has
7 been described as the worst financial crisis since the 1930's¹⁷. Amidst this
8 turmoil, the Fed made the decision to cut the federal funds rate by another
9 50 basis points in a coordinated move with foreign central banks on
10 October 8, 2008. This was followed by another 50 basis point cut during
11 the regular FOMC meeting on October 29, 2008. At the time of this
12 writing, the federal funds target rate now stands at 0.25 percent, the result
13 of a 75 basis point cut announced on December 16, 2008.

14
15 Q. What is the current rate of inflation in the U.S.?

16 A. As can be seen on Schedule WAR-8, the current rate of inflation is at 1.63
17 percent according to information provided by the U.S. Department of
18 Labor's Bureau of Labor Statistics.¹⁸

19
20 ...

21

¹⁷ Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

¹⁸ <http://www.bls.gov/news.release/cpi.nr0.htm>

1 Q. Has the Fed raised interest rates in anticipation of higher inflation?

2 A. No. Despite encouraging signs of recovery, with the exception of recent
3 higher prices for food and oil, the FOMC has not raised interest rates to
4 date. Furthermore, during the first week of November 2010, Chairman
5 Bernanke announced plans to buy \$600 billion of U.S. government bonds
6 over the next eight months in order to drive down long-term interest rates
7 and encourage more borrowing and growth.¹⁹ During its March 15, 2011
8 meeting, the FOMC unanimously voted to press on with its \$600 billion
9 bond-buying plan despite a considerably more upbeat assessment of the
10 economy and the job market. In a prepared statement, the FOMC
11 announced that "The economic recovery is on a firmer footing, and overall
12 conditions in the labor market appear to be improving gradually."
13 However, the rate-setting body of the Fed also reiterated its pledge to
14 keep interest rates, currently near zero, at very low levels for an extended
15 period.²⁰

16
17 Q. Putting this all into perspective, how have the Fed's actions since 2000
18 affected the yields on Treasury Instruments and benchmark interest rates?

19 A. As can be seen on Schedule WAR-8, current Treasury yields are
20 considerably lower than corresponding yields that existed during the year

¹⁹ Hilsenrath, Jon, "Fed Fires \$600 Billion Stimulus Shot" The Wall Street Journal, November 4, 2010

²⁰ da Costa, Pedro and Mark Felsenthal, "Fed says economic recovery on firmer footing," MSNBC, March 15, 2011

1 2000 and U.S. Treasury instruments, are for the most part, still at
2 historically low levels. As can be seen on the first page of Attachment D,
3 the previously mentioned federal discount rate (the rate charged to the
4 Fed's member banks), has remained steady at 0.75 percent since March
5 of 2010.

6 As of March 2, 2011, leading interest rates that include the 3-month, 6-
7 month and 1-year treasury yields have dropped from their March 2010
8 levels. Longer term yields including the 5-year, 10-year and 30-year have
9 all fallen from levels that existed a year ago. Only the 30-year Zero rate
10 saw a 5 basis point increase since March 2010 (Attachment D, Value Line
11 Selection & Opinion page 2353). The prime rate has remained constant at
12 3.25 percent over the past year, as has the benchmark federal funds rate
13 discussed above. A previous trend, described by former Chairman
14 Greenspan as a "conundrum"²¹, in which long-term rates fell as short-term
15 rates increased, thus creating a somewhat inverted yield curve that
16 existed as late as June 2007, is completely reversed and a more
17 traditional yield curve (one where yields increase as maturity dates
18 lengthen) presently exists. The 5-year Treasury yield, used in my CAPM
19 analysis, has decreased 10 basis points from 2.27 percent, in March 2010,
20 to 2.17 percent as of March 2, 2011.

²¹ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

1 Q. What are the current yields on utility bonds?

2 A. Referring again to Attachment D, as of March 2, 2011, 25/30-year A-rated
3 utility bonds were yielding 5.69 percent (10 basis points lower than a year
4 ago) and 25/30-year Baa/BBB-rated utility bonds were yielding 6.08
5 percent (down 20 basis points from a year earlier).

6
7 Q. What is the current outlook for the economy?

8 A. Value line's analysts had this to say in the March 11, 2011 edition
9 of Value Line's Selection and Opinion publication:

10 **Things appear to be picking up nicely thus far in 2011.**
11 Indeed, with manufacturing accelerating, personal income up
12 strongly, exports gaining, and confidence building, it is likely that
13 first-quarter GDP growth will rise by at least 3.5%. Although that
14 would still pale against the growth rates tallied in the formative
15 stages of some past economic recoveries, it might be sufficient
16 — if sustained over several quarters — to reduce the jobless rate
17 significantly.
18

19 Value Line's analysts went on to explain

20 **Meanwhile, questions loom,** both stateside and overseas. In
21 the former case, there's the lingering slump in housing, with
22 recent data on sales of new homes and existing residences
23 being less than inspiring. Indeed, we sense it will be a year or
24 two before this sector is recovering strongly. Then, there is
25 inflation, which is now starting to pick up, most notably for food
26 and energy. The pricing situation will clearly bear watching.
27 Looking abroad, there are serious tensions in North Africa and
28 the Middle East, and the surge in oil prices to consider. How the
29 drama in that contentious region plays out will materially affect
30 our business fortunes.
31

32 Value Line's analysts also stated

33 **Overall, we're fairly sanguine on the economy,** assuming the
34 situation stabilizes overseas — allowing oil to settle back into a
35 comfort zone in the \$70-\$90-a-barrel range — and housing
36 doesn't suffer a double-dip, as some still fear. For now, we look

1 for GDP growth of 3.0%-3.3% in 2011, which would be a credible
2 performance.
3

4 Value Line's analysts went on to say

5 **We're more cautious about the stock market**, largely because
6 of the increasing global risks and the earlier ratcheting up in
7 valuations. Still, as long as interest rates remain low and inflation
8 proves contained, the bear could be kept at bay.
9

10 Q. How are water utilities faring in the current economic environment?

11 A. Although, as always, there are concerns regarding long-term infrastructure
12 requirements, water utilities are being viewed as they normally are during
13 times of economic uncertainty according to Value Line analyst Andre J.
14 Costanza. In the January 21, 2011 quarterly update on the water utility
15 industry Mr. Costanza stated the following:

16 The recent earnings momentum is probably not sustainable, however.
17 Growth will likely slow considerably for most, as growing infrastructure
18 expenses and the costs associated with them (see below) are poised to
19 erase the benefits of the top-line advances mentioned above and
20 pressure margins. Water systems in the United States are aging and
21 demand tremendous capital investment to be repaired or replaced in
22 order to adequately meet EPA and state guidelines.
23

24 Even still, the group does have its merits. The income component that
25 accompanies most stocks here provides some stability, a welcomed
26 component in times of economic uncertainty, which we continue to
27 endure. As such, some of the water utility offerings have continued to
28 trade upwards since our October review and the group, as a whole, still
29 ranks towards the top of the Value Line Investment Survey for
30 Timeliness. Note that our presentation no longer includes Southwest
31 Water, which was acquired late last year.
32

33
34 ...
35

1 Q. How has Arizona fared in terms of the overall economy and home
2 foreclosures?

3 A. Arizona was one of the states hit the hardest during the Great Recession
4 and has lagged during the current recovery.²² During the period between
5 2006 and 2009, statewide construction spending fell by 40.00 percent.
6 According to information provided by Irvine, California-based RealtyTrac,
7 Arizona is currently ranked third in the nation behind California and
8 Nevada in terms of home foreclosures with the largest number of
9 foreclosures occurring in Maricopa, Pinal and Pima Counties.²³

10
11 Q. What is the current unemployment situation in Arizona during this period
12 of economic recovery?

13 A. According to a recent article in the Arizona Daily Star²⁴, Arizona's jobless
14 rate remained unchanged at 10.00 percent (for a seasonally adjusted rate
15 of 9.60 percent) in January 2011 from December 2010 according to
16 figures released on Thursday, March 3, 2011 by the Arizona Commerce

²² Beard, Betty, "Recession hit Arizona hardest" The Arizona Republic, March 6, 2011

²³ <http://www.realtytrac.com/trendcenter/>

²⁴ Fischer, Howard, "AZ jobs picture darker than was thought" The Arizona Daily Star, March 4, 2011

1 Department.²⁵ As of March 4, 2011, nationwide unemployment stood at
2 8.90 percent according to the U.S. Bureau of Labor Statistics.²⁶
3

4 Q. After weighing the economic information that you've just discussed, do you
5 believe that the 9.00 percent cost of equity capital that you have estimated
6 is reasonable for the Company?

7 A. I believe that my recommended 9.00 percent cost of equity capital, which
8 is 287 basis points higher than the current 6.08 percent yield on a
9 Baa/BBB-rated utility bond, will provide the Company with a reasonable
10 rate of return on invested capital when data on interest rates (that are low
11 by historical standards), the current state of the economy, current rates of
12 unemployment (both nationally and in Arizona), and the Fed's ability to
13 keep inflation in check are all taken into consideration. As I noted earlier,
14 the Hope decision determined that a utility is entitled to earn a rate of
15 return that is commensurate with the returns it would make on other
16 investments with comparable risk. I believe that my cost of equity
17 analysis, which is on the high side of the range of results I obtained from
18 both the DCF and CAPM models, has produced such a return.
19
20

²⁵ Arizona Department of Commerce Report Prepared in Cooperation with the U.S. Department of Labor Bureau of Labor Statistics www.workforce.az.gov

²⁶ U.S. Bureau of Labor Statistics Economic News Release dated March 4, 2011
<http://www.bls.gov/news.release/empsit.nr0.htm>

CAPITAL STRUCTURE AND COST OF DEBT

Q. Please describe the Company-proposed capital structure.

A. The Company-proposed capital structure is comprised of 81.68 percent common equity and 18.32 percent long-term debt.

Q. How does the Company-proposed capital structure compare with the capital structures of the water and gas utilities that comprise your samples?

A. The Company-proposed capital structure, comprised of 81.68 percent equity capital is clearly heavier in equity than the capital structures of the water and gas utilities in my samples, which had an average of 51.50 percent common equity, and would be perceived by investors as having lower risk overall. The lower level of debt in the Company's capital structure would indicate lower financial risk and would ordinarily justify a downward adjustment to the cost of common equity derived from my sample companies that had average capital structures of approximately 48.20 percent common equity and 53.80 percent debt in the case of water, and approximately 55.4 percent common equity and 443.90 percent debt in the case of natural gas.

...

1 Q. What capital structure are you recommending for GWC?

2 A. I am recommending a hypothetical capital structure comprised of 60.0
3 percent common equity and 40 percent debt as opposed to the Company-
4 proposed capital structure.

5

6 Q. Why have you decided to recommend a hypothetical capital structure for
7 GWC?

8 A. In recent years I have attempted, for the most part, to recommend
9 hypothetical capital structures for utilities that have extreme levels of debt
10 or equity in their capital structures. In a number of prior cases involving
11 water systems, I have recommended hypothetical capital structures in
12 cases where imprudent capital structures comprised of 100 percent equity
13 were being proposed or in cases where the utility did not have debt with a
14 third party financial institution or bondholders, such as in this case GWC's
15 ratepayers would benefit from .

16

17 Q. Did you make any direct downward adjustment to your recommended cost
18 of common equity that takes into consideration the level of equity
19 contained in your recommended hypothetical capital structure?

20 A. No. While a good argument could be made for such an adjustment, I
21 believe my recommended 9.00 percent cost of equity, which was derived
22 from my samples which had more balanced capital structures, would

1 cover any investor concerns regarding any unique business risk
2 associated with GWC.

3

4 Q. What cost of long-term debt are you recommending for GWC?

5 A. I am recommending that the Commission adopt a hypothetical cost of debt
6 of 6.13 percent which is 237 basis points lower than the Company-
7 proposed cost of debt of 8.50 percent.

8

9 Q. How did you determine your hypothetical cost of debt?

10 A. As can be viewed on page 2 of Schedule WAR-1, my recommended 6.13
11 percent hypothetical cost of debt is an average of the weighted costs of
12 long-term debt of seven publicly traded water utilities followed by Value
13 Line analysts. Three of these water utilities are the same ones that I
14 described earlier and were used in my DCF and CAPM analyses. Three
15 of the remaining four (Connecticut Water Service, Inc., Middlesex Water
16 Company, and SJW Corp.) are ones that I noted earlier in my testimony
17 that were included in the Company's proxy. The seventh water utility,
18 York Water Company, is also followed in Value Line's Small & Mid-Cap
19 Edition.

20

21

22 ...

23

1 Q. Why do you believe your recommended 6.13 percent hypothetical cost of
2 debt is reasonable?

3 A. My recommended 6.13 percent hypothetical cost of debt is 5 basis points
4 higher than the current yield of 6.08 percent on a Baa/BBB-rated utility
5 bonds that was reported in the March 11, 2011 Value line Selection and
6 Opinion publication (Attachment D). In addition to this, Arizona Water
7 Company, the second largest water provider in the state, privately placed
8 \$35 million in bonds at a stated rate of 6.67 percent on the first day of
9 September 2008 during a period when the yield on Baa/BBB-rated utility
10 bonds averaged 6.63 percent. So it is not unreasonable to conclude that
11 a shareholder loan, such as the one that makes up the long-term debt
12 portion of GWC's capital structure, should carry a rate of interest that is in
13 line with prevailing rates. For the reasons stated above, I believe my
14 recommended 6.13 percent hypothetical cost of debt is reasonable and
15 there is no need for any additional basis points.

16
17 Q. Please describe GWC's shareholder loan.

18 A. GWC's shareholder loan for \$527,400, with a stated rate of interest of 8.50
19 percent per annum, was executed on February 12, 2008 in accordance
20 with Decision No. 56118, dated September 15, 1988. Decision No. 56118
21 authorized the Company to incur a maximum of \$527,400 in long-term
22 debt pursuant to A.R.S. §40-301 and §40-302. The promissory note lists
23 the borrower as Goodman Water Company, an Arizona Corporation, and

1 the lender as E.C. Development, Inc., an Arizona Corporation. The note
2 was signed by James A. Shiner, President of GWC and Alexander H.
3 Sears, President of E.C. Development. As noted in the testimony of
4 RUCO witness Timothy J. Coley, both Mr. Shiner and Mr. Sears are
5 shareholders of GWC. Furthermore, as can be seen in Exhibit 2 of my
6 direct testimony, both Mr. Shiner and Mr. Sears are the sole shareholders
7 of E.C. Development, Inc.²⁷

8
9 Q. What were the prevailing yields on utility bonds at the time that GWC's
10 loan was executed?

11 A. Exhibit 1 of my testimony shows that the yields on a 25/30-year A-rated
12 utility bond and a 25/30-year Baa/BBB-rated utility bond ranged from 6.02
13 percent to 6.35 percent during the period between February 6, 2008 and
14 February 13, 2008 or 215 to 248 basis points lower than the 8.50 percent
15 rate of interest on GWC's shareholder loan. As can be seen on Schedule
16 WAR-8, the yield on a Baa/BBB-rated utility bond averaged 5.98 percent
17 during 2010.

18
19 Q. Did GWC consider lower cost Water Infrastructure Financing Authority
20 (WIA) financing?

21 A. According to GWC's response to intervenor Lawrence Wawrzyniak's data
22 request Number 2.11 (Exhibit 2), the Company considered applying for a

²⁷ Goodman Water Company response to Wawrzyniak data request number 4.03 provided on March 17, 2011.

1 WIFA loan in March, 2009, but decided against it for a number of reasons.

2 At that time, yields on yields on a 25/30-year A-rated utility bond and a

3 25/30-year Baa/BBB-rated utility bond ranged from 5.90 percent to 7.51

4 percent during the period between March 4, 2009 and April 4, 2009.

5 Putting the WIFA loan aside, based on this information GWC could have

6 conceivably benefited from pricing the shareholder loan at the prevailing

7 interest rates that existing at the time that the loan was executed.

8

9 Q. What is the current rate on WIFA loans?

10 A. During a recent telephone conversation with WIFA personnel, I was

11 informed that recent WIFA loans had been priced at approximately 3.68

12 percent, which is 245 basis points lower than my recommended 6.13

13 percent cost of debt for GWC.

14

15 Q. Do you believe that GWC's loan terms should be more reflective of

16 prevailing rates?

17 A. Yes. Even if the shareholders believed that an 8.50 percent rate of

18 interest was reasonable at the time the loan was executed, a prudent

19 money manger would take advantage of lower rates and restructure or

20 refinance existing higher cost debt instruments.

21

22 ...

23

1 Q. How does the Company's proposed weighted cost of capital compare with
2 your recommendation?

3 A. GWC has proposed a weighted average cost of capital of 10.54 percent
4 which is 269 basis points higher than my recommended 7.85 percent
5 weighted average cost of capital.

6

7 Q. Please summarize why you believe that the Commission should adopt
8 your recommended 7.85 percent weighted average cost of capital that is
9 the result of your recommended hypothetical capital structure, your
10 recommended cost of equity capital and your hypothetical cost of debt.

11 A. I believe that the approach that I have taken in this case provides the
12 Company with a rate of return that meets the standards established in the
13 Hope and Bluefield cases while also providing no change in rates to
14 GWC's customers. My recommended capital structure of 60 percent
15 equity and 40 percent debt is more favorable to the Company than the
16 average capital structure of the water utilities in my sample. Ratepayers
17 also benefit from my recommended weighted average cost of capital
18 which is lower than what would have been obtained from a capital
19 structure comprised of 81.68 percent common equity. In short, I believe
20 that my analysis has produced a rate of return that is just and reasonable
21 and should be adopted by the Commission.

22

23

COMMENTS ON THE COMPANY-PROPOSED COST OF EQUITY CAPITAL

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The Company's cost of capital witness, Mr. Bourassa, is recommending a cost of common equity of 11.00 percent. His 11.00 percent cost of equity capital is 200 basis points higher than the 9.00 percent cost of equity capital that I have calculated.

Q. What methods did Mr. Bourassa use to arrive at his proposed cost of common equity for the Company?

A. Mr. Bourassa used both the DCF and CAPM methods. He also relies on a third valuation method known as a Build-up method that does not require the use of market betas as does the CAPM. His DCF analysis relies on the same constant growth version of the DCF model that I have used with two different growth estimates: a past and future growth estimate which produces a 9.70 percent indicated cost of equity, and a future growth estimate which produces a 11.30 percent indicated cost of equity. Mr. Bourassa's CAPM analysis also uses the same model that I have used but he obtains two different results: one obtained by using an historical risk premium and the other by using a current market risk premium. His CAPM analysis produces results of 10.6 percent using an historical risk premium and 15.70 percent using a current market risk premium. His average CAPM result is 13.10 percent.

Q. What are the main reasons for the difference in the results that you obtained from your DCF analysis and the results that Mr. Bourassa obtained from his DCF analysis using the constant growth model?

A. Mr. Bourassa conducted his analysis around August 13, 2010 and consequently much of the data that he used in his analysis is now seven months old. This can be seen in a price comparison of three of the water company stocks that we both used in our samples: The difference between the average adjusted closing stock prices used in my DCF model and spot prices used by Mr. Bourassa in his DCF models are as follows:

| | <u>Rigsby</u> | <u>Bourassa</u> | <u>Difference</u> |
|-----|---------------|-----------------|-------------------|
| AWR | \$33.92 | \$32.80 | \$1.12 |
| CWT | \$36.56 | \$34.72 | \$1.84 |
| WTR | \$22.99 | \$19.18 | \$3.81 |

As can be seen above, the three water stocks that our samples have in common have increased in value since the August 13, 2010 closing prices used in Mr. Bourassa's sample. Since there is little difference in the projected dividends used in our respective DCF models, the more current prices used in my model result in a lower current dividend yield which can be seen as follows:

| | | <u>Rigsby</u> | <u>Bourassa</u> | <u>Difference</u> |
|---|-----|---------------|-----------------|-------------------|
| 1 | | | | |
| 2 | AWR | 3.07% | 3.17% | 10 bps |
| 3 | CWT | 3.25% | 3.43% | 18 bps |
| 4 | WTR | 2.70% | 3.08% | 38 bps |
| 5 | | | | |

6 Q. What are the differences between your constant growth DCF results and
7 Mr. Bourassa's constant growth models?

8 A. As I stated earlier, Mr. Bourassa did not rely on a sample of natural gas
9 utilities so my comparison is limited to our respective water utility samples.
10 Much of the difference between our results is attributable to the utilities
11 that were included in our samples. Mr. Bourassa's sample included
12 utilities that I excluded because Value Line does not provide projections
13 on them which I use to develop my growth estimates for the "g"
14 component of the DCF model. His average annual dividend yields of 3.46
15 percent to 3.08 percent are 45 to 7 basis points higher than my average
16 dividend yield of 3.01 percent. The current dividend yield of the three
17 utilities that our samples have in common (based on my 8-week average
18 adjusted closing prices listed above) would be 58 to 29 basis points higher
19 than my 3.01 percent relying on Mr. Bourassa's method for calculating the
20 current dividend yield. In regard to our growth (i.e. "g" component of the
21 DCF model) estimates, Mr. Bourassa's estimates of 5.87 percent to 7.44
22 percent are 21 basis points lower to 136 basis points higher than my
23 average growth estimate of 6.08 percent.

1 Q. Do you agree with Mr. Bourassa's rationale for not using Value Line
2 estimates of DPS growth in the estimation of a growth rate for the DCF
3 model?

4 A. No, I do not. In explaining his reason for this Mr. Bourassa also admits
5 that DPS projections are not available for the three water utilities that I
6 excluded in my sample. While in this case Mr. Bourassa admits that the
7 projected DPS growth rate of 3.67 percent is higher than the historical
8 growth rate of 3.33 percent, he has essentially made an argument in prior
9 cases that the DPS element of growth should be selectively ignored if it
10 depresses an overall growth rate that also includes EPS and BVPS.

11
12 Q. Do you agree with Mr. Bourassa?

13 A. No. I believe that all elements of growth should be considered in
14 calculating a growth component for the DCF. This is what I've done to
15 arrive at my DCF growth estimates.

16
17 Q. What are the main differences between your CAPM results and Mr.
18 Bourassa's CAPM results?

19 A. The differences between our CAPM results is attributable to his selection
20 of forecasted long-term U.S. Treasury instrument yields used as inputs for
21 the risk-free rate of return and the time period that has expired since Mr.
22 Bourassa filed his direct testimony. Mr. Bourassa's average beta of 0.78
23 has also fallen since his testimony was filed, and his current market risk

1 premium figure of 13.3 percent is simply not realistic when compared with
2 the market risk premiums, ranging from 4.50 percent to 6.30 percent, that I
3 obtained from Morningstar's 2010 SBBI Yearbook.

4
5 Q. Please explain the differences in your risk free rates of return.

6 A. I relied on an 8-week average yield of 2.13 percent on a 5-year treasury
7 instrument whereas Mr. Bourassa relied on a 5.40 percent average of
8 forecasted 30-year Treasury yields.

9
10 Q. Do you agree with Mr. Bourassa's reliance on forecasted yields of long-
11 term Treasury instruments?

12 A. No. I believe that an average of the most recent yields on a 5-year
13 Treasury instrument is more appropriate when one takes into account that
14 utilities generally file for new rates every three to five years. Mr.
15 Bourassa's 5.40 percent risk-free rate is based on analysts' forecasts for
16 2012 and 2013 and is 84 basis points higher than the current 4.56 percent
17 yield on a 30-year Treasury bond which I believe is a better indicator of
18 future yields on that instrument.

19
20 Q. What is the current average beta for the water utilities included in Mr.
21 Bourassa's sample?

22 A. The current average beta for the water utilities included in Mr. Bourassa's
23 sample is 0.77 as opposed to the 0.78 used in his CAPM analysis and the

1 0.72 average beta used in my CAPM analysis using a sample of water
2 utilities. Since Mr. Bourassa's direct testimony was filed in September
3 2010, the betas for California Water Service Group and SJW Corp.
4 dropped from 0.75 and .95 to 0.70 and 0.90 respectively, indicating lower
5 risk, in terms of beta, for these companies.

6
7 Q. What are the differences in the market risk premiums that you used in
8 your CAPM analyses?

9 A. As I explained earlier in my testimony, my market risk premiums are the
10 6.30 percent arithmetic and 4.50 percent geometric means of the
11 differences between the return on the broader stock market and the yields
12 of intermediate term U.S. Treasury instruments over the 1926 – 2009 time
13 frame (obtained from Morningstar's 2010 SBBI Yearbook). Mr. Bourassa
14 relied on a 6.70 percent historical risk premium (which also relied on
15 Morningstar data) and a 13.30 percent current market risk premium, which
16 was computed using the DCF model and data on 1,700 stocks followed by
17 Value Line.

18
19 Q. Do you agree with Mr. Bourassa's 13.30 percent current market risk
20 premium?

21 A. No. Mr. Bourassa's 13.30 percent market risk premium is clearly
22 excessive and only represents a snapshot in time. He calculates it by
23 using a DCF model that relies on stock price appreciation for the growth

1 component (i.e. "g"). This results in a 19-month average expected return
2 of 17.60 percent. His 13.30 percent risk premium is the difference
3 between the 17.60 percent DCF result and the 4.34 percent 19-month
4 average of the yields on a 30-year Treasury instrument. Mr. Bourassa's
5 current market risk premium is not even realistic considering the historic
6 market risk premiums that take into consideration the full spectrum of
7 economic conditions that have occurred since 1926.

8
9 Q. How did Mr. Bourassa arrive at his final 11.00 percent cost of common
10 equity for the Company?

11 A. Mr. Bourassa's proposed 11.00 percent cost of common equity represents
12 his own judgment and relies on the results of the midpoints of the ranges
13 of estimates he obtained from his various models.

14
15 Q. Is there any merit in the rationale used by Mr. Bourassa in regard to the
16 size arguments stated in his direct testimony?

17 A. No. One has to take into consideration the fact that the water utilities
18 included in both Mr. Bourassa's and my samples are collections of water
19 systems that are similar to GWC and face the same types of risks as
20 GWC.

21
22 ...
23

1 Q. Has the ACC ever granted a cost of equity based on company size?

2 A. To the best of my knowledge, the Commission has never granted a higher
3 cost of common equity based on company size.
4

5 Q. Does your cost of capital recommendation take into consideration any
6 perceived business risks that the Company might face?

7 A. Yes. As I stated earlier in my testimony, I believe that the amount of
8 equity contained in my recommended capital structure, which is higher
9 than the percentage of equity contained in my utility samples, and the fact
10 that I have not made any downward adjustment to my recommended 9.00
11 percent cost of equity mitigates any perceived business risk, which would
12 also include the construction risk that Mr. Bourassa speaks of in his
13 testimony, that investors might believe the Company faces.
14

15 Q. Does your silence on any of the issues, matters or findings addressed in
16 the testimony of Mr. Bourassa or any other witness for GWC constitute
17 your acceptance of their positions on such issues, matters or findings?

18 A. No, it does not.
19

20 Q. Does this conclude your testimony on GWC?

21 A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

| <u>Utility Company</u> | <u>Docket No.</u> | <u>Type of Proceeding</u> |
|--|--------------------------|----------------------------------|
| ICR Water Users Association | U-2824-94-389 | Original CC&N |
| Rincon Water Company | U-1723-95-122 | Rate Increase |
| Ash Fork Development Association, Inc. | E-1004-95-124 | Rate Increase |
| Parker Lakeview Estates Homeowners Association, Inc. | U-1853-95-328 | Rate Increase |
| Mirabell Water Company, Inc. | U-2368-95-449 | Rate Increase |
| Bonita Creek Land and Homeowner's Association | U-2195-95-494 | Rate Increase |
| Pineview Land & Water Company | U-1676-96-161 | Rate Increase |
| Pineview Land & Water Company | U-1676-96-352 | Financing |
| Montezuma Estates Property Owners Association | U-2064-96-465 | Rate Increase |
| Houghland Water Company | U-2338-96-603 et al | Rate Increase |
| Sunrise Vistas Utilities Company – Water Division | U-2625-97-074 | Rate Increase |
| Sunrise Vistas Utilities Company – Sewer Division | U-2625-97-075 | Rate Increase |
| Holiday Enterprises, Inc. dba Holiday Water Company | U-1896-97-302 | Rate Increase |
| Gardener Water Company | U-2373-97-499 | Rate Increase |
| Cienega Water Company | W-2034-97-473 | Rate Increase |
| Rincon Water Company | W-1723-97-414 | Financing/Auth. To Issue Stock |
| Vail Water Company | W-01651A-97-0539 et al | Rate Increase |
| Bermuda Water Company, Inc. | W-01812A-98-0390 | Rate Increase |
| Bella Vista Water Company | W-02465A-98-0458 | Rate Increase |
| Pima Utility Company | SW-02199A-98-0578 | Rate Increase |

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| <u>Utility Company</u> | <u>Docket No.</u> | <u>Type of Proceeding</u> |
|--|--------------------------|----------------------------------|
| Pineview Water Company | W-01676A-99-0261 | WIFA Financing |
| I.M. Water Company, Inc. | W-02191A-99-0415 | Financing |
| Marana Water Service, Inc. | W-01493A-99-0398 | WIFA Financing |
| Tonto Hills Utility Company | W-02483A-99-0558 | WIFA Financing |
| New Life Trust, Inc. dba Dateland Utilities | W-03537A-99-0530 | Financing |
| GTE California, Inc. | T-01954B-99-0511 | Sale of Assets |
| Citizens Utilities Rural Company, Inc. | T-01846B-99-0511 | Sale of Assets |
| MCO Properties, Inc. | W-02113A-00-0233 | Reorganization |
| American States Water Company | W-02113A-00-0233 | Reorganization |
| Arizona-American Water Company | W-01303A-00-0327 | Financing |
| Arizona Electric Power Cooperative | E-01773A-00-0227 | Financing |
| 360networks (USA) Inc. | T-03777A-00-0575 | Financing |
| Beardsley Water Company, Inc. | W-02074A-00-0482 | WIFA Financing |
| Mirabell Water Company | W-02368A-00-0461 | WIFA Financing |
| Rio Verde Utilities, Inc. | WS-02156A-00-0321 et al | Rate Increase/ Financing |
| Arizona Water Company | W-01445A-00-0749 | Financing |
| Loma Linda Estates, Inc. | W-02211A-00-0975 | Rate Increase |
| Arizona Water Company | W-01445A-00-0962 | Rate Increase |
| Mountain Pass Utility Company | SW-03841A-01-0166 | Financing |
| Picacho Sewer Company | SW-03709A-01-0165 | Financing |
| Picacho Water Company | W-03528A-01-0169 | Financing |
| Ridgeview Utility Company | W-03861A-01-0167 | Financing |
| Green Valley Water Company | W-02025A-01-0559 | Rate Increase |
| Bella Vista Water Company | W-02465A-01-0776 | Rate Increase |
| Arizona Water Company | W-01445A-02-0619 | Rate Increase |

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| <u>Utility Company</u> | <u>Docket No.</u> | <u>Type of Proceeding</u> |
|----------------------------------|--------------------------|----------------------------------|
| Arizona-American Water Company | W-01303A-02-0867 et al. | Rate Increase |
| Arizona Public Service Company | E-01345A-03-0437 | Rate Increase |
| Rio Rico Utilities, Inc. | WS-02676A-03-0434 | Rate Increase |
| Qwest Corporation | T-01051B-03-0454 | Renewed Price Cap |
| Chaparral City Water Company | W-02113A-04-0616 | Rate Increase |
| Arizona Water Company | W-01445A-04-0650 | Rate Increase |
| Tucson Electric Power | E-01933A-04-0408 | Rate Review |
| Southwest Gas Corporation | G-01551A-04-0876 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0405 | Rate Increase |
| Black Mountain Sewer Corporation | SW-02361A-05-0657 | Rate Increase |
| Far West Water & Sewer Company | WS-03478A-05-0801 | Rate Increase |
| Gold Canyon Sewer Company | SW-02519A-06-0015 | Rate Increase |
| Arizona Public Service Company | E-01345A-05-0816 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0718 | Transaction Approval |
| Arizona-American Water Company | W-01303A-05-0405 | ACRM Filing |
| Arizona-American Water Company | W-01303A-06-0014 | Rate Increase |
| UNS Gas, Inc. | G-04204A-06-0463 | Rate Increase |
| Arizona-American Water Company | WS-01303A-06-0491 | Rate Increase |
| UNS Electric, Inc. | E-04204A-06-0783 | Rate Increase |
| Arizona-American Water Company | W-01303A-07-0209 | Rate Increase |
| Tucson Electric Power | E-01933A-07-0402 | Rate Increase |
| Southwest Gas Corporation | G-01551A-07-0504 | Rate Increase |
| Chaparral City Water Company | W-02113A-07-0551 | Rate Increase |
| Arizona Public Service Company | E-01345A-08-0172 | Rate Increase |
| Johnson Utilities, LLC | WS-02987A-08-0180 | Rate Increase |
| Arizona-American Water Company | W-01303A-08-0227 et al. | Rate Increase |

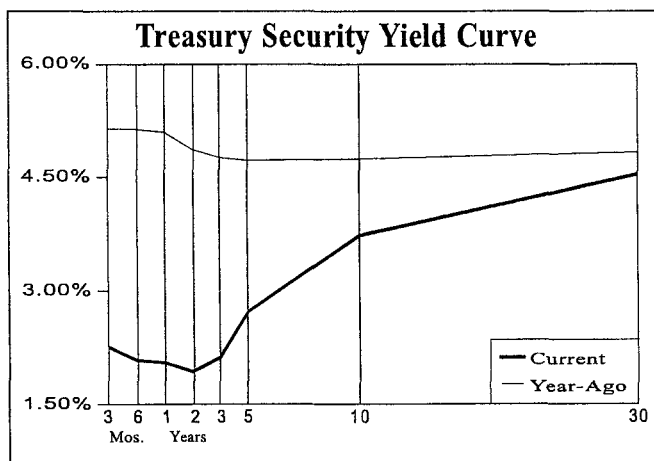
RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| <u>Utility Company</u> | <u>Docket No.</u> | <u>Type of Proceeding</u> |
|------------------------------------|--------------------------|----------------------------------|
| UNS Gas, Inc. | G-04204A-08-0571 | Rate Increase |
| Arizona Water Company | W-01445A-08-0440 | Rate Increase |
| Far West Water & Sewer Company | WS-03478A-08-0608 | Interim Rate Increase |
| Black Mountain Sewer Corporation | SW-02361A-08-0609 | Rate Increase |
| Global Utilities | SW-02445A-09-0077 et al. | Rate Increase |
| Litchfield Park Service Company | SW-01428A-09-0104 et al. | Rate Increase |
| UNS Electric, Inc. | E-04204A-09-0206 | Rate Increase |
| Rio Rico Utilities, Inc. | WS-02676A-08-09-0257 | Rate Increase |
| Arizona-American Water Company | W-01303A-09-0343 | Rate Increase |
| Bella Vista Water Company | W-02465A-09-0411 et al. | Rate Increase |
| Chaparral City Water Company | W-02113A-10-0309 | Reorganization |
| Qwest Communications International | T-04190A-10-0194 et al. | Merger |
| CenturyLink, Inc. | T-04190A-10-0194 et al. | Merger |

EXHIBIT 1

Selected Yields

| | Recent (2/13/08) | 3 Months Ago (11/14/07) | Year Ago (2/14/07) | | Recent (2/13/08) | 3 Months Ago (11/14/07) | Year Ago (2/14/07) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 3.50 | 5.00 | 6.25 | | | | |
| Federal Funds | 3.00 | 4.50 | 5.25 | | | | |
| Prime Rate | 6.00 | 7.50 | 8.25 | | | | |
| 30-day CP (A1/P1) | 3.00 | 4.56 | 5.23 | | | | |
| 3-month LIBOR | 3.07 | 4.88 | 5.36 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 2.15 | 2.83 | 3.27 | | | | |
| 1-year | 2.34 | 3.54 | 3.86 | | | | |
| 5-year | 2.85 | 3.89 | 3.91 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 2.26 | 3.39 | 5.15 | | | | |
| 6-month | 2.09 | 3.68 | 5.14 | | | | |
| 1-year | 2.06 | 3.68 | 5.10 | | | | |
| 5-year | 2.73 | 3.82 | 4.72 | | | | |
| 10-year | 3.73 | 4.25 | 4.74 | | | | |
| 10-year (inflation-protected) | 1.34 | 1.86 | 2.39 | | | | |
| 30-year | 4.54 | 4.60 | 4.83 | | | | |
| 30-year Zero | 4.65 | 4.62 | 4.76 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 4.46 | 5.53 | 5.72 | | | | |
| FHLMC 6.5% (Gold) | 5.10 | 5.73 | 5.82 | | | | |
| FNMA 6.5% | 4.71 | 5.51 | 5.74 | | | | |
| FNMA ARM | 5.18 | 5.90 | 5.62 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 5.78 | 5.95 | 5.52 | | | | |
| Industrial (25/30-year) A | 6.29 | 5.98 | 5.77 | | | | |
| Utility (25/30-year) A | 6.20 | 6.09 | 5.77 | | | | |
| Utility (25/30-year) Baa/BBB | 6.35 | 6.18 | 6.02 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.87 | 4.21 | 4.15 | | | | |
| Germany | 3.96 | 4.15 | 4.10 | | | | |
| Japan | 1.43 | 1.53 | 1.74 | | | | |
| United Kingdom | 4.62 | 4.74 | 4.95 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.13 | 6.43 | 6.14 | | | | |
| Financial A | 7.00 | 7.58 | 6.43 | | | | |
| Financial Adjustable A | 5.51 | 5.51 | 5.51 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.33 | 4.54 | 4.21 | | | | |
| 25-Bond Index (Revs) | 4.72 | 4.85 | 4.53 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 1.05 | 3.30 | 3.60 | | | | |
| 1-year A | 1.15 | 3.40 | 3.70 | | | | |
| 5-year Aaa | 2.67 | 3.44 | 3.63 | | | | |
| 5-year A | 2.77 | 3.74 | 3.72 | | | | |
| 10-year Aaa | 3.40 | 3.83 | 3.78 | | | | |
| 10-year A | 3.60 | 4.13 | 4.30 | | | | |
| 25/30-year Aaa | 4.36 | 4.55 | 4.08 | | | | |
| 25/30-year A | 4.56 | 4.75 | 4.39 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 4.60 | 4.75 | 4.49 | | | | |
| Electric AA | 4.65 | 4.85 | 4.48 | | | | |
| Housing AA | 4.80 | 4.95 | 4.54 | | | | |
| Hospital AA | 4.85 | 4.95 | 4.55 | | | | |
| Toll Road Aaa | 4.65 | 4.85 | 4.49 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 1/30/08 | 1/16/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1458 | 1712 | -254 | 1700 | 2144 | 1861 |
| Borrowed Reserves | 390 | 1377 | -987 | 1699 | 1291 | 729 |
| Net Free/Borrowed Reserves | 1068 | 335 | 733 | 1 | 854 | 1132 |

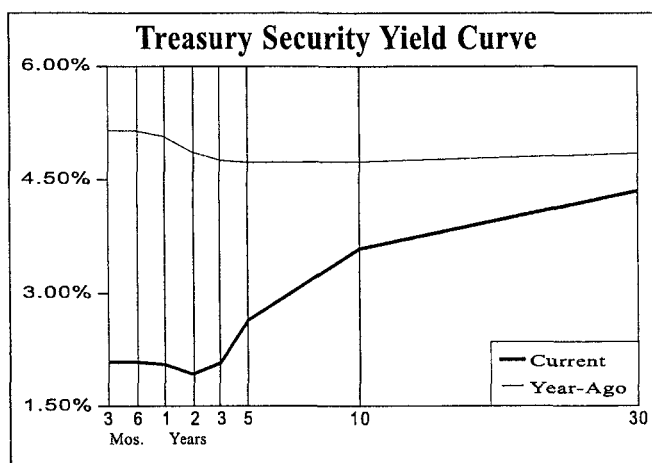
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 1/28/08 | 1/21/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1362.3 | 1372.1 | -9.8 | -2.1% | -1.0% | -1.0% |
| M2 (M1+savings+small time deposits) | 7529.2 | 7491.6 | 37.6 | 6.8% | 6.9% | 6.0% |

Selected Yields

| | Recent (2/06/08) | 3 Months Ago (11/07/07) | Year Ago (2/07/07) | | Recent (2/06/08) | 3 Months Ago (11/07/07) | Year Ago (2/07/07) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 3.50 | 5.00 | 6.25 | | | | |
| Federal Funds | 3.00 | 4.50 | 5.25 | | | | |
| Prime Rate | 6.00 | 7.50 | 8.25 | | | | |
| 30-day CP (A1/P1) | 3.04 | 4.53 | 5.24 | | | | |
| 3-month LIBOR | 3.13 | 4.90 | 5.36 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 2.30 | 2.83 | 3.27 | | | | |
| 1-year | 2.39 | 3.55 | 3.86 | | | | |
| 5-year | 2.86 | 3.90 | 3.91 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 2.09 | 3.44 | 5.15 | | | | |
| 6-month | 2.09 | 3.73 | 5.15 | | | | |
| 1-year | 2.06 | 3.83 | 5.07 | | | | |
| 5-year | 2.65 | 3.88 | 4.73 | | | | |
| 10-year | 3.59 | 4.31 | 4.74 | | | | |
| 10-year (inflation-protected) | 1.26 | 1.91 | 2.38 | | | | |
| 30-year | 4.36 | 4.65 | 4.85 | | | | |
| 30-year Zero | 4.40 | 4.66 | 4.80 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 4.31 | 5.53 | 5.72 | | | | |
| FHLMC 6.5% (Gold) | 4.68 | 5.75 | 5.82 | | | | |
| FNMA 6.5% | 4.21 | 5.58 | 5.76 | | | | |
| FNMA ARM | 5.19 | 5.90 | 5.62 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 5.54 | 5.81 | 5.56 | | | | |
| Industrial (25/30-year) A | 6.12 | 5.89 | 5.79 | | | | |
| Utility (25/30-year) A | 6.02 | 6.07 | 5.81 | | | | |
| Utility (25/30-year) Baa/BBB | 6.20 | 6.15 | 6.07 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.79 | 4.28 | 4.11 | | | | |
| Germany | 3.90 | 4.15 | 4.03 | | | | |
| Japan | 1.43 | 1.57 | 1.74 | | | | |
| United Kingdom | 4.46 | 4.83 | 4.96 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.09 | 6.38 | 6.14 | | | | |
| Financial A | 6.95 | 7.84 | 6.44 | | | | |
| Financial Adjustable A | 5.51 | 5.51 | 5.51 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.39 | 4.40 | 4.31 | | | | |
| 25-Bond Index (Revs) | 4.76 | 4.73 | 4.59 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 1.65 | 3.30 | 3.60 | | | | |
| 1-year A | 1.75 | 3.34 | 3.70 | | | | |
| 5-year Aaa | 2.66 | 3.46 | 3.62 | | | | |
| 5-year A | 2.96 | 3.76 | 3.90 | | | | |
| 10-year Aaa | 3.34 | 3.84 | 3.76 | | | | |
| 10-year A | 3.63 | 4.14 | 4.17 | | | | |
| 25/30-year Aaa | 4.26 | 4.52 | 4.10 | | | | |
| 25/30-year A | 4.39 | 4.67 | 4.42 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 4.40 | 4.72 | 4.48 | | | | |
| Electric AA | 4.40 | 4.72 | 4.41 | | | | |
| Housing AA | 4.70 | 4.95 | 4.65 | | | | |
| Hospital AA | 4.80 | 4.90 | 4.65 | | | | |
| Toll Road Aaa | 4.45 | 4.72 | 4.52 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 1/30/08 | 1/16/08 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1460 | 1710 | -250 | 1701 | 2145 | 1861 |
| Borrowed Reserves | 390 | 1377 | -987 | 1699 | 1291 | 729 |
| Net Free/Borrowed Reserves | 1070 | 333 | 737 | 2 | 854 | 1133 |

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 1/21/08 | 1/14/08 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1372.3 | 1345.8 | 26.5 | 1.2% | 0.6% | -0.0% |
| M2 (M1+savings+small time deposits) | 7491.7 | 7441.3 | 50.4 | 6.6% | 5.9% | 5.7% |

EXHIBIT 2

**GOODMAN WATER COMPANY
2010 RATE CASE
DOCKET NO. W-02500A-10-0382
RESPONSE TO WAWRZYNIAK'S SECOND SET OF DATA REQUESTS**

Response provided by: Jim Shiner

Title: President

Company Name: Goodman Water Company
Address: 6340 N. Campbell, Suite 278
 Tucson, Arizona 85718

Company Response Number: 2.11

- Q. Please provide an explanation as to whether or not Goodman Water Company sought to borrow funds from the Water Infrastructure Finance Authority for construction expansions to its water system, and if the water company did not seek financing from WIFA, why it did not do this.
- A. In March 2009, the Company contacted WIFA and subsequently obtained a WIFA loan application along with the WIFA program requirements. After a review of the WIFA requirements and conditions, and discussions with others, including the Company's attorney at the time, Jackie Ziliox, Thomas Bourassa, CPA, and Alexander Sears, the decision was made to not file a loan application with WIFA. A number of factors influenced the decision not to pursue this avenue of possible funding. They included: the WIFA plant replacement reserve requirements; the WIFA debt reserve requirements; the potential for restrictions on issuing dividends; the encumbrance of water plant assets; the costs for legal, accounting, engineering and other costs related to obtaining WIFA financing; the "Buy America" stipulation (which the Company believed was too burdensome and would result in higher material costs); and, the WIFA monitoring and reporting requirements. Further, the nature of the plant being funded, the size of the request for funds, and the perceived availability of WIFA funds also had a bearing on the Company's final decision.
-

**GOODMAN WATER COMPANY
2010 RATE CASE
DOCKET NO. W-02500A-10-0382
RESPONSE TO WAWRZYNIAK'S FOURTH SET OF DATA REQUESTS**

Response provided by: Jim Shiner

Title: President

Company Name: Goodman Water Company
Address: 6340 N. Campbell, Suite 278
 Tucson, Arizona 85718

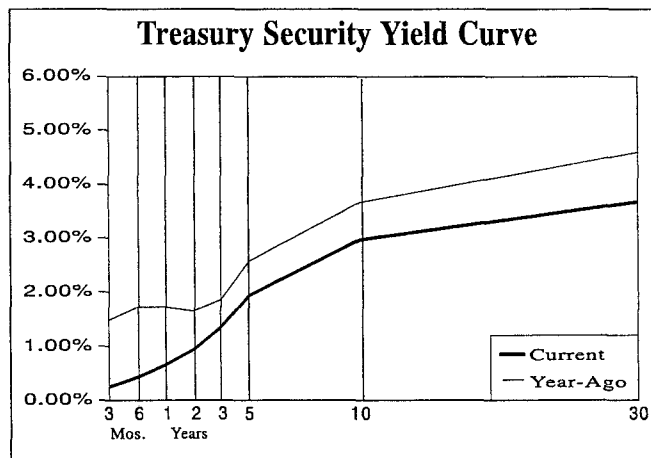
Company Response Number: 4.03

-
- Q. Please provide a narrative explaining the relationship between E.C. Development, Inc. listing its principle stockholders and Goodman Water Company.
- A. Alexander Sears owns approximately 67 percent of the stock in E.C. Development and Jim Shiner owns approximately 33 percent of the stock in E.C. Development. Both Mr. Sears and Mr. Shiner are stockholders in Goodman Water Company. Please also see response to RUCO data request 1.11.
-

EXHIBIT 3

Selected Yields

| | Recent (3/04/09) | 3 Months Ago (12/03/08) | Year Ago (3/05/08) | | Recent (3/04/09) | 3 Months Ago (12/03/08) | Year Ago (3/05/08) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 1.25 | 3.50 | | | | |
| Federal Funds | 0.00-0.25 | 1.00 | 3.00 | | | | |
| Prime Rate | 3.25 | 4.00 | 6.00 | | | | |
| 30-day CP (A1/P1) | 0.79 | 1.50 | 2.97 | | | | |
| 3-month LIBOR | 1.28 | 2.20 | 3.00 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.84 | 1.57 | 2.16 | | | | |
| 1-year | 1.04 | 1.95 | 2.16 | | | | |
| 5-year | 2.07 | 3.32 | 3.16 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.25 | 0.01 | 1.49 | | | | |
| 6-month | 0.43 | 0.28 | 1.72 | | | | |
| 1-year | 0.66 | 0.64 | 1.72 | | | | |
| 5-year | 1.94 | 1.58 | 2.57 | | | | |
| 10-year | 2.97 | 2.62 | 3.67 | | | | |
| 10-year (inflation-protected) | 2.03 | 2.91 | 1.02 | | | | |
| 30-year | 3.67 | 3.12 | 4.60 | | | | |
| 30-year Zero | 3.55 | 3.02 | 4.78 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 4.19 | 5.66 | 4.80 | | | | |
| FHLMC 6.5% (Gold) | 4.13 | 5.46 | 5.36 | | | | |
| FNMA 6.5% | 4.15 | 5.26 | 5.02 | | | | |
| FNMA ARM | 3.60 | 4.24 | 5.05 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 8.50 | 8.09 | 5.96 | | | | |
| Industrial (25/30-year) A | 6.23 | 6.70 | 6.35 | | | | |
| Utility (25/30-year) A | 5.93 | 6.83 | 6.26 | | | | |
| Utility (25/30-year) Baa/BBB | 7.16 | 7.58 | 6.39 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.02 | 3.16 | 3.64 | | | | |
| Germany | 3.14 | 3.04 | 3.86 | | | | |
| Japan | 1.31 | 1.39 | 1.38 | | | | |
| United Kingdom | 3.64 | 3.43 | 4.48 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 7.62 | 6.75 | 6.26 | | | | |
| Financial A | 12.59 | 7.75 | 7.60 | | | | |
| Financial Adjustable A | 5.53 | 5.53 | 5.53 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.87 | 5.39 | 5.11 | | | | |
| 25-Bond Index (Revs) | 5.76 | 6.06 | 5.22 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.57 | 1.05 | 2.25 | | | | |
| 1-year A | 0.67 | 1.15 | 2.35 | | | | |
| 5-year Aaa | 2.30 | 2.95 | 3.30 | | | | |
| 5-year A | 2.90 | 3.05 | 3.60 | | | | |
| 10-year Aaa | 3.29 | 4.09 | 4.11 | | | | |
| 10-year A | 3.79 | 4.29 | 4.40 | | | | |
| 25/30-year Aaa | 4.86 | 5.48 | 5.10 | | | | |
| 25/30-year A | 5.86 | 5.88 | 5.23 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.90 | 6.05 | 5.30 | | | | |
| Electric AA | 6.00 | 6.10 | 5.30 | | | | |
| Housing AA | 6.25 | 6.25 | 5.60 | | | | |
| Hospital AA | 6.20 | 6.20 | 5.70 | | | | |
| Toll Road Aaa | 6.05 | 6.15 | 5.30 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 2/25/09 | 2/11/09 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 673413 | 611393 | 62020 | 726280 | 467369 | 243400 |
| Borrowed Reserves | 588910 | 561332 | 27578 | 607990 | 535429 | 344398 |
| Net Free/Borrowed Reserves | 84503 | 50061 | 34442 | 118290 | -68061 | -100998 |

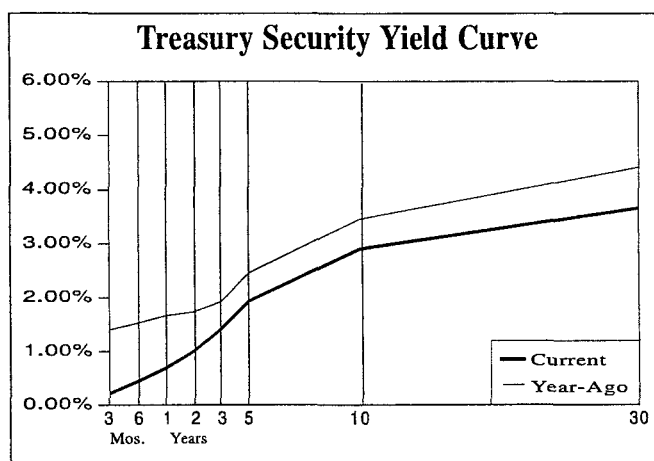
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|--------|--------|-------------------------------|--------|---------|
| | 2/16/09 | 2/9/09 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1558.9 | 1570.2 | -11.3 | 12.1% | 26.9% | 14.1% |
| M2 (M1+savings+small time deposits) | 8280.2 | 8264.1 | 16.1 | 17.5% | 16.2% | 10.0% |

Selected Yields

| | Recent (3/11/09) | 3 Months Ago (12/10/08) | Year Ago (3/12/08) | | Recent (3/11/09) | 3 Months Ago (12/10/08) | Year Ago (3/12/08) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 1.25 | 3.50 | | | | |
| Federal Funds | 0.00-0.25 | 1.00 | 3.00 | | | | |
| Prime Rate | 3.25 | 4.00 | 6.00 | | | | |
| 30-day CP (A1/P1) | 0.75 | 0.86 | 2.84 | | | | |
| 3-month LIBOR | 1.33 | 2.10 | 2.85 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.84 | 1.57 | 2.17 | | | | |
| 1-year | 1.05 | 1.95 | 2.17 | | | | |
| 5-year | 2.07 | 3.32 | 3.16 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.22 | 0.01 | 1.41 | | | | |
| 6-month | 0.45 | 0.20 | 1.53 | | | | |
| 1-year | 0.70 | 0.47 | 1.67 | | | | |
| 5-year | 1.94 | 1.61 | 2.46 | | | | |
| 10-year | 2.91 | 2.68 | 3.46 | | | | |
| 10-year (inflation-protected) | 2.01 | 3.11 | 0.84 | | | | |
| 30-year | 3.66 | 3.09 | 4.41 | | | | |
| 30-year Zero | 3.56 | 2.90 | 4.57 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 4.21 | 5.17 | 5.02 | | | | |
| FHLMC 6.5% (Gold) | 3.58 | 4.92 | 5.04 | | | | |
| FNMA 6.5% | 3.73 | 4.75 | 4.94 | | | | |
| FNMA ARM | 3.60 | 4.24 | 5.07 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 7.38 | 8.29 | 6.05 | | | | |
| Industrial (25/30-year) A | 6.18 | 6.63 | 6.14 | | | | |
| Utility (25/30-year) A | 6.05 | 6.79 | 6.08 | | | | |
| Utility (25/30-year) Baa/BBB | 7.50 | 7.55 | 6.27 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 2.92 | 3.09 | 3.53 | | | | |
| Germany | 3.07 | 3.21 | 3.77 | | | | |
| Japan | 1.32 | 1.42 | 1.35 | | | | |
| United Kingdom | 3.09 | 3.57 | 4.42 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.96 | 6.47 | 6.61 | | | | |
| Financial A | 11.44 | 7.38 | 7.83 | | | | |
| Financial Adjustable A | 5.46 | 5.46 | 5.46 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.96 | 5.58 | 4.92 | | | | |
| 25-Bond Index (Revs) | 5.80 | 6.17 | 5.11 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.57 | 0.95 | 2.05 | | | | |
| 1-year A | 0.67 | 1.05 | 2.20 | | | | |
| 5-year Aaa | 2.30 | 2.95 | 2.83 | | | | |
| 5-year A | 2.55 | 3.00 | 2.93 | | | | |
| 10-year Aaa | 3.30 | 4.20 | 3.66 | | | | |
| 10-year A | 3.83 | 4.40 | 3.86 | | | | |
| 25/30-year Aaa | 4.87 | 5.79 | 4.85 | | | | |
| 25/30-year A | 5.91 | 6.17 | 5.04 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.90 | 6.00 | 5.05 | | | | |
| Electric AA | 5.95 | 5.95 | 5.10 | | | | |
| Housing AA | 6.25 | 6.75 | 5.35 | | | | |
| Hospital AA | 6.30 | 6.65 | 5.40 | | | | |
| Toll Road Aaa | 6.00 | 6.10 | 5.10 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 2/25/09 | 2/11/09 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 673432 | 611407 | 62025 | 726285 | 467371 | 243401 |
| Borrowed Reserves | 588910 | 561332 | 27578 | 607990 | 535429 | 344398 |
| Net Free/Borrowed Reserves | 84522 | 50075 | 34447 | 118295 | -68058 | -100997 |

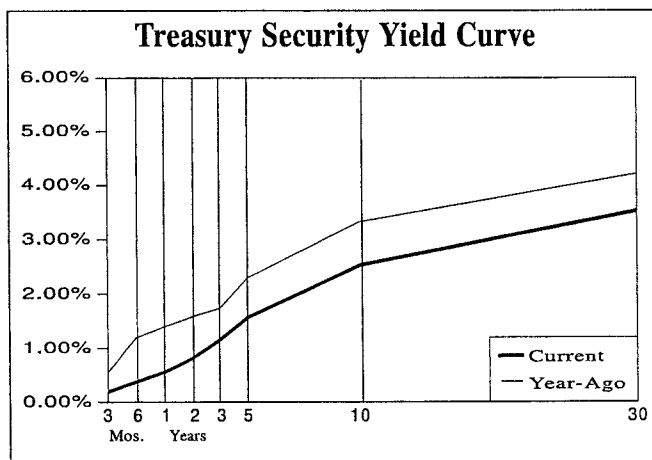
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 2/23/09 | 2/16/09 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1545.0 | 1558.4 | -13.4 | 3.6% | 23.6% | 13.2% |
| M2 (M1+savings+small time deposits) | 8274.5 | 8280.2 | -5.7 | 14.5% | 15.8% | 9.5% |

Selected Yields

| | Recent (3/18/09) | 3 Months Ago (12/17/08) | Year Ago (3/19/08) | | Recent (3/18/09) | 3 Months Ago (12/17/08) | Year Ago (3/19/08) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 0.50 | 2.50 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 2.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 5.25 | | | | |
| 30-day CP (A1/P1) | 0.49 | 0.27 | 2.65 | | | | |
| 3-month LIBOR | 1.29 | 1.58 | 2.60 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.84 | 1.46 | 2.15 | | | | |
| 1-year | 1.05 | 1.89 | 2.16 | | | | |
| 5-year | 2.07 | 2.96 | 3.12 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.20 | 0.01 | 0.56 | | | | |
| 6-month | 0.38 | 0.18 | 1.20 | | | | |
| 1-year | 0.56 | 0.45 | 1.40 | | | | |
| 5-year | 1.57 | 1.37 | 2.30 | | | | |
| 10-year | 2.53 | 2.19 | 3.33 | | | | |
| 10-year (inflation-protected) | 1.31 | 2.39 | 0.90 | | | | |
| 30-year | 3.53 | 2.65 | 4.21 | | | | |
| 30-year Zero | 3.54 | 2.69 | 4.35 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 3.59 | 4.40 | 4.70 | | | | |
| FHLMC 6.5% (Gold) | 3.15 | 4.40 | 4.96 | | | | |
| FNMA 6.5% | 3.28 | 4.04 | 4.62 | | | | |
| FNMA ARM | 3.60 | 4.23 | 5.07 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 7.52 | 7.50 | 5.89 | | | | |
| Industrial (25/30-year) A | 6.07 | 6.18 | 5.87 | | | | |
| Utility (25/30-year) A | 5.90 | 6.26 | 5.96 | | | | |
| Utility (25/30-year) Baa/BBB | 7.51 | 7.09 | 6.14 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 2.70 | 2.87 | 3.45 | | | | |
| Germany | 3.22 | 2.99 | 3.76 | | | | |
| Japan | 1.31 | 1.30 | 1.28 | | | | |
| United Kingdom | 3.11 | 3.23 | 4.31 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.25 | 6.50 | 6.34 | | | | |
| Financial A | 9.76 | 8.23 | 7.91 | | | | |
| Financial Adjustable A | 5.47 | 5.47 | 5.47 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.03 | 5.85 | 4.94 | | | | |
| 25-Bond Index (Revs) | 5.83 | 6.39 | 5.15 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.57 | 0.95 | 1.80 | | | | |
| 1-year A | 0.67 | 1.05 | 1.90 | | | | |
| 5-year Aaa | 2.39 | 2.86 | 2.87 | | | | |
| 5-year A | 2.99 | 2.96 | 3.17 | | | | |
| 10-year Aaa | 3.45 | 4.03 | 3.73 | | | | |
| 10-year A | 3.95 | 4.23 | 4.02 | | | | |
| 25/30-year Aaa | 4.98 | 5.51 | 4.92 | | | | |
| 25/30-year A | 5.98 | 5.91 | 5.05 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 6.00 | 6.10 | 5.10 | | | | |
| Electric AA | 6.10 | 6.15 | 5.10 | | | | |
| Housing AA | 6.35 | 6.30 | 5.40 | | | | |
| Hospital AA | 6.30 | 6.25 | 5.50 | | | | |
| Toll Road Aaa | 6.15 | 6.20 | 5.10 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 3/11/09 | 2/25/09 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 621517 | 673431 | -51914 | 730878 | 511645 | 266367 |
| Borrowed Reserves | 630177 | 588910 | 41267 | 601461 | 568436 | 365508 |
| Net Free/Borrowed Reserves | -8660 | 84521 | -93181 | 129418 | -56791 | -99141 |

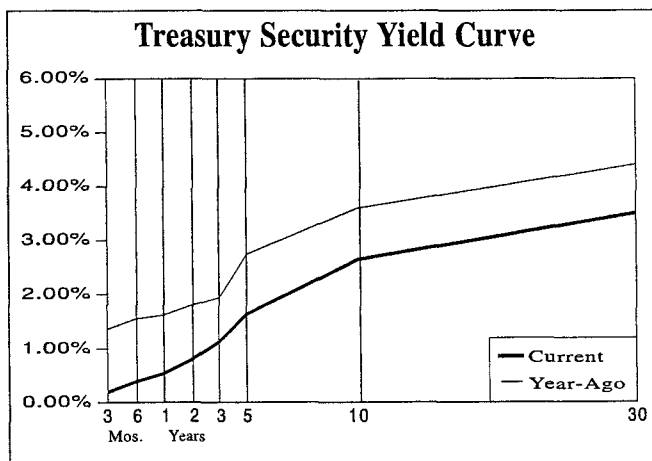
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 3/2/09 | 2/23/09 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1562.3 | 1544.8 | 17.5 | 8.2% | 26.0% | 12.6% |
| M2 (M1+savings+small time deposits) | 8304.0 | 8274.2 | 29.8 | 13.6% | 16.3% | 9.8% |

Selected Yields

| | Recent (4/01/09) | 3 Months Ago (12/30/08) | Year Ago (4/02/08) | | Recent (4/01/09) | 3 Months Ago (12/30/08) | Year Ago (4/02/08) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.50 | 0.50 | 2.50 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 2.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 5.25 | | | | |
| 30-day CP (A1/P1) | 0.44 | 0.06 | 2.67 | | | | |
| 3-month LIBOR | 1.18 | 1.44 | 2.70 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.83 | 1.16 | 1.78 | | | | |
| 1-year | 1.04 | 1.43 | 1.76 | | | | |
| 5-year | 2.06 | 2.51 | 2.87 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.20 | 0.09 | 1.37 | | | | |
| 6-month | 0.39 | 0.24 | 1.55 | | | | |
| 1-year | 0.54 | 0.31 | 1.62 | | | | |
| 5-year | 1.64 | 1.44 | 2.74 | | | | |
| 10-year | 2.65 | 2.05 | 3.60 | | | | |
| 10-year (inflation-protected) | 1.32 | 2.33 | 1.12 | | | | |
| 30-year | 3.50 | 2.56 | 4.41 | | | | |
| 30-year Zero | 3.52 | 2.42 | 4.48 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 3.53 | 4.11 | 4.81 | | | | |
| FHLMC 6.5% (Gold) | 3.12 | 4.03 | 5.05 | | | | |
| FNMA 6.5% | 3.04 | 3.89 | 4.79 | | | | |
| FNMA ARM | 3.15 | 4.22 | 4.67 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 7.49 | 7.08 | 6.30 | | | | |
| Industrial (25/30-year) A | 6.17 | 5.90 | 6.07 | | | | |
| Utility (25/30-year) A | 5.99 | 5.85 | 6.16 | | | | |
| Utility (25/30-year) Baa/BBB | 7.41 | 6.58 | 6.25 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 2.78 | 2.66 | 3.63 | | | | |
| Germany | 2.99 | 2.95 | 3.99 | | | | |
| Japan | 1.35 | 1.17 | 1.37 | | | | |
| United Kingdom | 3.13 | 3.09 | 4.43 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.74 | 6.00 | 6.16 | | | | |
| Financial A | 9.90 | 7.89 | 6.74 | | | | |
| Financial Adjustable A | 5.48 | 5.48 | 5.48 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.00 | 5.46 | 4.96 | | | | |
| 25-Bond Index (Revs) | 5.78 | 6.22 | 5.24 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.50 | 0.85 | 1.60 | | | | |
| 1-year A | 0.60 | 0.95 | 1.70 | | | | |
| 5-year Aaa | 2.08 | 2.57 | 3.00 | | | | |
| 5-year A | 2.33 | 2.87 | 3.10 | | | | |
| 10-year Aaa | 3.20 | 3.70 | 3.79 | | | | |
| 10-year A | 3.73 | 4.20 | 4.00 | | | | |
| 25/30-year Aaa | 4.79 | 5.17 | 4.91 | | | | |
| 25/30-year A | 5.83 | 6.15 | 5.11 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.80 | 6.15 | 5.20 | | | | |
| Electric AA | 5.85 | 6.20 | 5.25 | | | | |
| Housing AA | 6.15 | 6.50 | 5.35 | | | | |
| Hospital AA | 6.20 | 6.55 | 5.40 | | | | |
| Toll Road Aaa | 5.90 | 6.25 | 5.25 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 3/25/09 | 3/11/09 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 771194 | 621518 | 149676 | 730364 | 566544 | 294864 |
| Borrowed Reserves | 604849 | 630177 | -25328 | 591508 | 599533 | 385679 |
| Net Free/Borrowed Reserves | 166345 | -8659 | 175004 | 138856 | -32990 | -90815 |

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|--------|--------|-------------------------------|--------|---------|
| | 3/16/09 | 3/9/09 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1565.6 | 1577.1 | -11.5 | -8.4% | 19.8% | 14.4% |
| M2 (M1+savings+small time deposits) | 8376.2 | 8342.9 | 33.3 | 12.1% | 18.2% | 10.2% |

ATTACHMENT A

Each of the water utility companies included in our *Survey* strung together a better-than-expected third-quarter showing. (None of the entities in this group released December-period results at the time this Issue went to press.) Indeed, all managed to report earnings advances, with three of the four nearing the 20% mark. Double-digit revenue growth was commonplace, as regulatory bodies continued to take a more business friendly approach when handing down decisions on general rate cases.

The recent earnings momentum is probably not sustainable, however. Growth will likely slow considerably for most, as growing infrastructure expenses and the costs associated with them (see below) are poised to erase the benefits of the top-line advances mentioned above and pressure margins. Water systems in the United States are aging and demand tremendous capital investment to be repaired or replaced in order to adequately meet EPA and state guidelines.

Even still, the group does have its merits. The income component that accompanies most stocks here provides some stability, a welcomed component in times of economic uncertainty, which we continue to endure. As such, some of the water utility offerings have continued to trade upwards since our October review and the group, as a whole, still ranks towards the top of the *Value Line Investment Survey* for Timeliness. Note that our presentation no longer includes *Southwest Water*, which was acquired late last year.

Unquenchable Demand

There is no question, water is one of, if not, the most essential parts of life. It is a necessary part of nearly every creature and plants diet, and thus is in the highest demand. As such, delivery of this liquid is almost as crucial, with water utilities responsible for safe and timely delivery of water to millions of Americans daily. Absent a miraculous discovery, demand for water will continue to grow along with the population, creating the most opportune operating environment for providers in this space.

Refreshingly Better Regulatory Environment

With most providers operating state-to-state, regulatory boards have been put in place to maintain a balance of power between providers and customers. As such, the

INDUSTRY TIMELINESS: 17 (of 98)

stance taken by each authority plays a vital role in the financial health of providers, reviewing and ruling on general rate requests made by utilities to help recover costs. Long-time antagonists to utilities, many boards have become more business friendly in recent years, auguring well for corporations across state lines.

Overflowing Expenses

Even with more friendly state regulators in place, the industry has some issues threatening to pressure profits. Infrastructures are decaying rapidly and, in many cases, need complete overhauls. The costs to make the repairs are astronomical and many operating in this space do not have the funds on hand to foot the bill. Indeed, most are strapped for cash and will have to look to outside financiers to keep up. Although consolidation trends present unique opportunities for those with the financial capabilities to throw their hat in the ring, such as *Aqua America*, others are just trying to stay afloat. Unfortunately, the financing costs to stay in business, whether it be additional share or debt offerings, will probably drown most and dilute shareholder gains moving ahead.

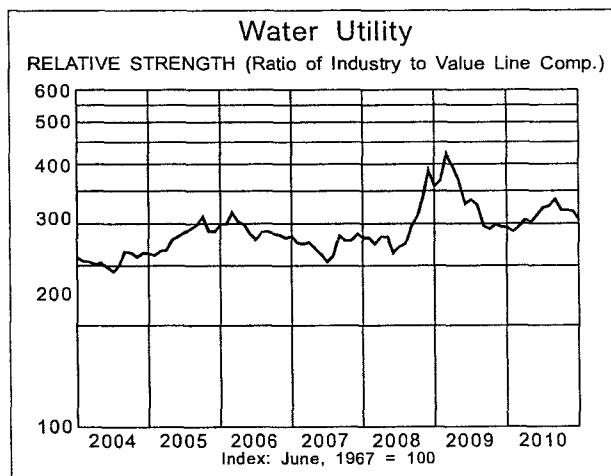
Conclusion

There have been some solid performers in this group of late and *Aqua America* and *American Water Works* are favorably ranked for Timeliness as a result. That said, the group has historically been a market laggard in terms of growth and only the latter stands out for 3- to 5-year price appreciation potential, given the infrastructure and financing costs likely to mount over the next few years. Nevertheless, *Aqua America's* aggressive disposition on the acquisition front and its venture into the solar power venue, though still early, may well interest some more aggressive accounts.

Although the dividend yields may pique the interest of those looking for some shelter, there are better income vehicles available to be had in the Electric Utility industry. As always, we advise potential investors to take a more thorough look at the individual stocks before making any monetary commitments.

Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | | | |
|--|---------|---------|---------|---------------------------------------|-------|------------------------|--|--|-------|
| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | | | | 13-15 |
| 3229.9 | 3485.2 | 3692.9 | 3921.6 | 4345 | 4625 | Revenues (\$mill) | | | 5400 |
| d15.1 | d188.1 | 351.7 | 384.4 | 485 | 525 | Net Profit (\$mill) | | | 650 |
| NMF | NMF | 38.1% | 38.7% | 39.5% | 39.0% | Income Tax Rate | | | 39.0% |
| NMF | NMF | 1.5% | 1.1% | 7.0% | 8.0% | AFUDC % to Net Profit | | | 10.0% |
| 54.3% | 51.1% | 52.3% | 55.5% | 55.5% | 55.5% | Long-Term Debt Ratio | | | 55.0% |
| 45.7% | 48.9% | 47.7% | 44.5% | 44.5% | 44.5% | Common Equity Ratio | | | 45.0% |
| 11821.6 | 12684.9 | 12324.3 | 13244.4 | 13810 | 14350 | Total Capital (\$mill) | | | 15750 |
| 12918.6 | 13897.2 | 14296.8 | 15815.6 | 16465 | 17150 | Net Plant (\$mill) | | | 19250 |
| 1.6% | .2% | 4.4% | 4.4% | 6.0% | 6.0% | Return on Total Cap'l | | | 7.0% |
| NMF | NMF | 6.0% | 6.5% | 8.0% | 8.0% | Return on Shr. Equity | | | 9.0% |
| NMF | NMF | 6.0% | 6.5% | 8.0% | 8.0% | Return on Com Equity | | | 9.0% |
| NMF | NMF | 3.0% | 2.2% | 3.5% | 3.5% | Retained to Com Eq | | | 4.5% |
| NMF | NMF | 50% | 66% | 57% | 54% | All Div'ds to Net Prof | | | 52% |
| NMF | NMF | 20.4 | 18.9 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | | | 20.0 |
| NMF | NMF | 1.23 | 1.26 | | | Relative P/E Ratio | | | 1.35 |
| 2.0% | 2.3% | 2.4% | 3.5% | | | Avg Ann'l Div'd Yield | | | 2.5% |



| CALIFORNIA WATER NYSE-CWT | | | | | RECENT PRICE | 37.25 | P/E RATIO | 18.3 | (Trailing: 19.7 Median: 22.0) | RELATIVE P/E RATIO | 1.10 | DIV'D YLD | 3.2% | VALUE LINE | | | | | | | | | | | | | | | | | |
|---|-----|------------------|--|------|--------------|-------|-----------|------|-------------------------------|--------------------|------|-----------|------|------------|------|---|------|------|------|-----------------------------|--|--|--|--|--|--|--|--|--|--|--|
| TIMELINESS | 3 | Raised 11/5/10 | High: | 32.0 | 31.4 | 28.6 | 26.9 | 31.4 | 37.9 | 42.1 | 45.8 | 45.4 | 46.6 | 48.3 | 39.7 | Target Price Range | 2013 | 2014 | 2015 | | | | | | | | | | | | |
| SAFETY | 3 | Lowered 7/27/07 | Low: | 22.6 | 21.5 | 22.9 | 20.5 | 23.7 | 26.1 | 31.2 | 32.8 | 34.2 | 27.7 | 33.5 | 33.8 | | | | | | | | | | | | | | | | |
| TECHNICAL | 3 | Lowered 11/12/10 | LEGENDS 1.33 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 1/98 Options: Yes Shaded areas indicate recessions | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BETA | .70 | (1.00 = Market) | 2013-15 PROJECTIONS Price Gain Ann'l Total High 60 (+60%) 15% Low 40 (+5%) 5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | F M A M J J A S O | | | | | | | | | | | | | | | |
| to Buy 0 18 0 0 0 0 1 0 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Options 0 0 0 0 0 0 2 0 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell 0 0 0 1 0 0 0 0 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | 1Q2010 2Q2010 3Q2010 | | | | | | | | | | | | | | | |
| to Buy 59 43 53 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell 56 72 53 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hld's(000) 9894 8640 9706 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Percent shares traded 9 6 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 | | | | | | | | | | | | | | | | © VALUE LINE PUB. LLC 13-15 | | | | | | | | | | | | | | | |
| 12.59 13.17 14.48 15.48 14.76 15.96 16.16 16.26 17.33 16.37 17.18 17.44 16.20 17.76 19.80 21.64 22.30 23.85 | | | | | | | | | | | | | | | | Revenues per sh 26.40 | | | | | | | | | | | | | | | |
| 2.02 2.07 2.50 2.92 2.60 2.75 2.52 2.20 2.65 2.51 2.83 3.03 2.71 3.12 3.72 3.87 4.10 4.30 | | | | | | | | | | | | | | | | "Cash Flow" per sh 4.85 | | | | | | | | | | | | | | | |
| 1.22 1.17 1.51 1.83 1.45 1.53 1.31 .94 1.25 1.21 1.46 1.47 1.34 1.50 1.90 1.95 1.93 2.20 | | | | | | | | | | | | | | | | Earnings per sh A 2.65 | | | | | | | | | | | | | | | |
| .99 1.02 1.04 1.06 1.07 1.09 1.10 1.12 1.12 1.12 1.13 1.14 1.15 1.16 1.17 1.18 1.19 1.20 | | | | | | | | | | | | | | | | Div'd Decl'd per sh B 1.23 | | | | | | | | | | | | | | | |
| 2.26 2.17 2.83 2.61 2.74 3.44 2.45 4.09 5.82 4.39 3.73 4.01 4.28 3.68 4.82 5.33 6.30 6.25 | | | | | | | | | | | | | | | | Cap'l Spending per sh 6.40 | | | | | | | | | | | | | | | |
| 11.56 11.72 12.22 13.00 13.38 13.43 12.90 12.95 13.12 14.44 15.66 15.79 18.15 18.50 19.44 20.26 20.95 21.80 | | | | | | | | | | | | | | | | Book Value per sh C 24.90 | | | | | | | | | | | | | | | |
| 12.49 12.54 12.62 12.62 12.62 12.94 15.15 15.18 15.18 16.93 18.37 18.39 20.66 20.67 20.72 20.77 21.00 22.00 | | | | | | | | | | | | | | | | Common Shs Outst'g D 23.50 | | | | | | | | | | | | | | | |
| 14.1 13.7 11.9 12.6 17.8 17.8 19.6 27.1 19.8 22.1 20.1 24.9 29.2 26.1 19.8 19.7 19.0 | | | | | | | | | | | | | | | | Avg Ann'l P/E Ratio 19.0 | | | | | | | | | | | | | | | |
| .92 .92 .75 .73 .93 1.01 1.27 1.39 1.08 1.26 1.06 1.33 1.58 1.39 1.19 1.32 1.20 | | | | | | | | | | | | | | | | Relative P/E Ratio 1.25 | | | | | | | | | | | | | | | |
| 5.8% 6.4% 5.8% 4.6% 4.2% 4.0% 4.3% 4.4% 4.5% 4.2% 3.9% 3.1% 2.9% 3.0% 3.1% 3.1% 3.2% | | | | | | | | | | | | | | | | Avg Ann'l Div'd Yield 2.5% | | | | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 9/30/10 | | | | | | | | | | | | | | | | 244.8 246.8 263.2 277.1 315.6 320.7 334.7 367.1 410.3 449.4 468 525 | | | | Revenues (\$mill) E 620 | | | | | | | | | | | |
| Total Debt \$438.9 mill. Due in 5 Yrs \$126.9 mill. | | | | | | | | | | | | | | | | 20.0 14.4 19.1 19.4 26.0 27.2 25.6 31.2 39.8 40.6 40.5 48.0 | | | | Net Profit (\$mill) 63.0 | | | | | | | | | | | |
| LT Debt \$380.3 mill. LT Interest \$28.0 mill. | | | | | | | | | | | | | | | | 42.3% 39.4% 39.7% 39.9% 39.6% 42.4% 37.4% 39.9% 37.7% 40.3% 39.5% 39.0% | | | | Income Tax Rate 39.0% | | | | | | | | | | | |
| (LT interest earned: 6.4%; total int. cov.: 5.7x) | | | | | | | | | | | | | | | | -- -- -- 10.3% 3.2% 3.3% 10.6% 8.3% 8.6% 7.6% 8.5% 10.0% | | | | AFUDC % to Net Profit 10.0% | | | | | | | | | | | |
| Pension Assets-12/09 \$105.6 mill. | | | | | | | | | | | | | | | | 48.9% 50.3% 55.3% 50.2% 48.6% 48.3% 43.5% 42.9% 41.6% 47.1% 50.0% 50.0% | | | | Long-Term Debt Ratio 50.0% | | | | | | | | | | | |
| Oblig. \$219.7 mill. | | | | | | | | | | | | | | | | 50.2% 48.8% 44.0% 49.1% 50.8% 51.1% 55.9% 56.6% 58.4% 52.9% 50.0% 50.0% | | | | Common Equity Ratio 50.0% | | | | | | | | | | | |
| Pfd Stock None | | | | | | | | | | | | | | | | 388.8 402.7 453.1 498.4 565.9 568.1 670.1 674.9 690.4 794.9 890 960 | | | | Total Capital (\$mill) 1170 | | | | | | | | | | | |
| Common Stock 20,830,303 shs. as of 11/2/10 | | | | | | | | | | | | | | | | 582.0 624.3 697.0 759.5 800.3 862.7 941.5 1010.2 1112.4 1198.1 1280 1350 | | | | Net Plant (\$mill) 1650 | | | | | | | | | | | |
| MARKET CAP: \$775 million (Small Cap) | | | | | | | | | | | | | | | | 6.8% 5.3% 5.9% 5.6% 6.1% 6.3% 5.2% 5.9% 7.1% 6.5% 6.0% 6.5% | | | | Return on Total Cap'l 6.5% | | | | | | | | | | | |
| CURRENT POSITION 2008 2009 9/30/10 | | | | | | | | | | | | | | | | 10.0% 7.2% 9.4% 7.8% 8.9% 9.3% 6.8% 8.1% 9.9% 9.6% 9.0% 10.0% | | | | Return on Shr. Equity 11.0% | | | | | | | | | | | |
| (MILL.) | | | | | | | | | | | | | | | | 10.1% 7.2% 9.5% 7.9% 9.0% 9.3% 6.8% 8.1% 9.9% 9.6% 9.0% 10.0% | | | | Return on Com Equity 11.0% | | | | | | | | | | | |
| Cash Assets 13.9 9.9 9.7 | | | | | | | | | | | | | | | | 1.8% NMF 1.0% .7% 2.1% 2.1% 1.0% 1.8% 3.8% 3.8% 3.5% 4.5% | | | | Retained to Com Eq 6.0% | | | | | | | | | | | |
| Other 65.9 82.3 82.0 | | | | | | | | | | | | | | | | 82% 119% 90% 91% 77% 78% 86% 77% 61% 60% 62% 54% | | | | All Div's to Net Prof 46% | | | | | | | | | | | |
| Current Assets 79.8 92.2 91.7 | | | | | | | | | | | | | | | | BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 467,100 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '09: residential, 70%; business, 19%; public authorities, 5%; industrial, 5%; other, 1%. '09 reported depreciation rate: 2.3%. Has roughly 1,013 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/10 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com. | | | | | | | | | | | | | | | |
| Accts Payable 45.1 43.7 48.4 | | | | | | | | | | | | | | | | California Water Service Group appears to have gotten a better handle on operating expenses. Fourth-quarter results were not released yet, but the water utility reported 4% share-earnings growth in the September period. Earnings declined in the first half of the year, as operating costs escalated amid greater infrastructure investment. Although rising maintenance costs are par for the course in this capital-intensive industry (see below), management was able to control more-discretionary spending, namely administrative costs, in the third quarter. We suspect that it is keeping a close watch on the cost structure, and that it was probably able to produce a double-digit earnings advance in the fourth quarter. Growth of 10% to 15% in likely in 2011. The California Public Utilities Commission (CPUC) recently approved a rate increase, adding more than \$25 million to annual revenues beginning in January. An additional \$8 million is pending on the completion of capital projects. The decision was a bit lighter than the initial \$70-plus million request and the \$45 million we expected, but should help the company achieve \$2.20 in share earnings this year nonetheless. Still, there are some issues that may plague future growth trends. True, the CPUC has definitely taken on a more business friendly disposition in recent years. And the company is definitely doing a better job keeping costs in check. But we worry that infrastructure costs will not be able to be kept under wraps and that limited finances will be problematic. Indeed, many of the company's water systems require significant attention. Its cash coffers are nearly empty, however, and it will have to continue to rely on outside financing to keep the doors open. The additional debt and/or equity offerings needed will only temper shareholder returns. Therefore, CWT is not an attractive growth vehicle, whether it be for the coming six to 12 months of 3 to 5 years. This issue's income component is the stock's saving grace, but may not be enough to entice most. CWT is a top-dividend yielding water utility. The payout may come under some pressure, though, given the company's financial restraints. Andre J. Costanza January 21, 2011 | | | | | | | | | | | | | | | |
| Debt Due 42.8 25.0 58.6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other 35.3 41.7 48.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current Liab. 123.2 110.4 155.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. 398% 430% 390% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Past 10 Yrs. Past 5 Yrs. Est'd '07-'09 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| of change (per sh) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenues 2.5% 3.0% 5.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| "Cash Flow" 2.5% 6.0% 5.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Earnings 1.0% 6.5% 7.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dividends 1.0% 1.0% 1.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Book Value 4.0% 6.0% 4.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| QUARTERLY REVENUES (\$ mill.) ^E | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2007 71.6 95.8 113.8 85.9 367.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 72.9 105.6 131.7 100.1 410.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 86.6 116.7 139.2 106.9 449.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 90.3 118.3 146.3 113.1 468 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 100 132 165 128 525 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EARNINGS PER SHARE ^A | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2007 .07 .37 .67 .39 1.50 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 .01 .48 1.06 .35 1.90 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 .12 .58 .94 .31 1.95 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 .10 .50 .98 .35 1.93 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 .13 .58 1.08 .41 2.20 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| QUARTERLY DIVIDENDS PAID ^B | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2007 .290 .290 .290 .290 1.16 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 .293 .293 .293 .293 1.17 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 .295 .295 .295 .295 1.18 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 .2975 .2975 .2975 .2975 1.19 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early February.

(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.

(C) Incl. deferred charges. In '09: \$2.6 mill., \$0.13/sh.
(D) In millions, adjusted for split.
(E) Excludes non-reg. rev.

Company's Financial Strength
 Stock's Price Stability B+
 Price Growth Persistence 85
 Earnings Predictability 70

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| AQUA AMERICA NYSE-WTR | | | | RECENT PRICE | 22.96 | P/E RATIO | 25.0 (Trailing: 26.4 Median: 25.0) | RELATIVE P/E RATIO | 1.50 | DIV'D YLD | 2.7% | VALUE LINE | | | | | | | | | | | | | | | | | | | | | | |
|---|---------|-----------------|---|--|--------|-----------|------------------------------------|--------------------|--------|-----------|--------|------------|--------------------|--------|--------|--------|---------------------|----------------------------------|--------------------------|--------|--------|-----------|--------|--------|--------|--------|-------|-------|------------------------|-------|--|--|--|--|
| TIMELINESS | 3 | Lowered 1/21/11 | High: 11.5 12.0 14.8 15.0 16.8 18.5 29.2 29.8 26.6 22.0 21.5 23.0 | Low: 7.6 6.3 9.4 9.6 11.8 14.2 17.5 20.1 18.9 12.2 15.4 16.5 | | | | | | | | | Target Price Range | 2013 | 2014 | 2015 | | | | | | | | | | | | | | | | | | |
| SAFETY | 3 | Lowered 8/1/03 | | | | | | | | | | | | | | | 64 | | | | | | | | | | | | | | | | | |
| TECHNICAL | 3 | Lowered 8/13/10 | | | | | | | | | | | | | | | 48 | | | | | | | | | | | | | | | | | |
| BETA | .65 | (1.00 = Market) | | | | | | | | | | | | | | | 40 | | | | | | | | | | | | | | | | | |
| 2013-15 PROJECTIONS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Price | 30 | Gain | Ann'l Total | | | | | | | | | | | | | | 32 | | | | | | | | | | | | | | | | | |
| High | 30 | (+30%) | 9% | | | | | | | | | | | | | | 24 | | | | | | | | | | | | | | | | | |
| Low | 19 | (-15%) | -1% | | | | | | | | | | | | | | 20 | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| F M A M J J A S O | | | | | | | | | | | | | | | | | 16 | | | | | | | | | | | | | | | | | |
| to Buy | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | | | | | | | | 12 | | | | | | | | | | | | | | | | | |
| Options | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 2 | 1 | | | | | | | | 8 | | | | | | | | | | | | | | | | | |
| to Sell | 0 | 0 | 1 | 0 | 0 | 3 | 0 | 2 | 1 | | | | | | | | 6 | | | | | | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10/2010 | 20/2010 | 3Q2010 | | | | | | | | | | | | | | | % TOT. RETURN 12/10 | | | | | | | | | | | | | | | | | |
| to Buy | 106 | 92 | 90 | | | | | | | | | | | | | | THIS STOCK | 1 yr. | 32.5 | 26.8 | | | | | | | | | | | | | | |
| to Sell | 106 | 119 | 101 | | | | | | | | | | | | | | VL ARITH. INDEX | 3 yr. | 16.0 | 27.6 | | | | | | | | | | | | | | |
| Hld's(000) | 57767 | 60654 | 59791 | | | | | | | | | | | | | | | 5 yr. | -6.2 | 49.5 | | | | | | | | | | | | | | |
| Percent shares traded | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | © VALUE LINE PUB. LLC | 13-15 | | | | | | | | | | | | | | | |
| 1.82 | 1.84 | 1.86 | 2.02 | 2.09 | 2.41 | 2.46 | 2.70 | 2.85 | 2.97 | 3.48 | 3.85 | 4.03 | 4.52 | 4.63 | 4.91 | 5.30 | 5.60 | Revenues per sh | 6.60 | | | | | | | | | | | | | | | |
| .42 | .47 | .50 | .56 | .61 | .72 | .76 | .86 | .94 | .96 | 1.09 | 1.21 | 1.26 | 1.37 | 1.42 | 1.61 | 1.75 | 1.85 | "Cash Flow" per sh | 2.15 | | | | | | | | | | | | | | | |
| .26 | .29 | .30 | .34 | .40 | .42 | .47 | .51 | .54 | .57 | .64 | .71 | .70 | .71 | .73 | .77 | .90 | .97 | Earnings per sh ^A | 1.15 | | | | | | | | | | | | | | | |
| .21 | .22 | .23 | .24 | .26 | .27 | .28 | .30 | .32 | .35 | .37 | .40 | .44 | .48 | .51 | .55 | .59 | .63 | Div'd Decl'd per sh ^B | .75 | | | | | | | | | | | | | | | |
| .46 | .52 | .48 | .58 | .82 | .90 | 1.16 | 1.09 | 1.20 | 1.32 | 1.54 | 1.84 | 2.05 | 1.79 | 1.98 | 2.08 | 2.20 | 1.45 | Cap'l Spending per sh | 1.60 | | | | | | | | | | | | | | | |
| 2.41 | 2.46 | 2.69 | 2.84 | 3.21 | 3.42 | 3.85 | 4.15 | 4.36 | 5.34 | 5.89 | 6.30 | 6.96 | 7.32 | 7.82 | 8.12 | 8.35 | 8.70 | Book Value per sh | 9.75 | | | | | | | | | | | | | | | |
| 59.77 | 63.74 | 65.75 | 67.47 | 72.20 | 106.80 | 111.82 | 113.97 | 113.19 | 123.45 | 127.18 | 128.97 | 132.33 | 133.40 | 135.37 | 136.49 | 137.60 | 138.10 | Common Shs Outst'g ^C | 139.60 | | | | | | | | | | | | | | | |
| 13.5 | 12.0 | 15.6 | 17.8 | 22.5 | 21.2 | 18.2 | 23.6 | 23.6 | 24.5 | 25.1 | 31.8 | 34.7 | 32.0 | 24.9 | 23.1 | 24.9 | | Avg Ann'l P/E Ratio | 21.0 | | | | | | | | | | | | | | | |
| .89 | .80 | .98 | 1.03 | 1.17 | 1.21 | 1.18 | 1.21 | 1.29 | 1.40 | 1.33 | 1.69 | 1.87 | 1.70 | 1.50 | 1.54 | 1.50 | | Relative P/E Ratio | 1.40 | | | | | | | | | | | | | | | |
| 6.0% | 6.2% | 4.9% | 3.9% | 2.9% | 3.0% | 3.3% | 2.5% | 2.5% | 2.5% | 2.3% | 1.8% | 1.8% | 2.1% | 2.8% | 3.1% | 2.7% | | Avg Ann'l Div'd Yield | 2.5% | | | | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 9/30/10 | | | | | | | | | | | | | | | | | 275.5 | 307.3 | 322.0 | 367.2 | 442.0 | 496.8 | 533.5 | 602.5 | 627.0 | 670.5 | 730 | 770 | Revenues (\$mill) | 920 | | | | |
| Total Debt \$1463.1 mill. Due in 5 Yrs \$275 mill. | | | | | | | | | | | | | | | | | 50.7 | 58.5 | 62.7 | 67.3 | 80.0 | 91.2 | 92.0 | 95.0 | 97.9 | 104.4 | 125 | 135 | Net Profit (\$mill) | 160 | | | | |
| LT Debt \$1450.3 mill. LT Interest \$60.0 mill. | | | | | | | | | | | | | | | | | 38.9% | 39.3% | 38.5% | 39.3% | 39.4% | 38.4% | 39.6% | 38.9% | 39.7% | 39.4% | 40.0% | 40.0% | Income Tax Rate | 40.0% | | | | |
| (LT interest earned: 4.0x; total interest coverage: 4.0x) | | | | | | | | | | | | | | | | | -- | -- | -- | -- | -- | -- | -- | -- | 2.9% | 3.1% | 2.5% | 2.5% | AFUDC % to Net Profit | 1.5% | | | | |
| (56% of Cap'l) | | | | | | | | | | | | | | | | | 52.0% | 52.2% | 54.2% | 51.4% | 50.0% | 52.0% | 51.6% | 55.4% | 54.1% | 55.6% | 56.0% | 56.0% | Long-Term Debt Ratio | 58.0% | | | | |
| Pension Assets-12/09 \$135.6 mill. | | | | | | | | | | | | | | | | | 47.8% | 47.7% | 45.8% | 48.6% | 50.0% | 48.0% | 48.4% | 44.6% | 45.9% | 44.4% | 44.0% | 44.0% | Common Equity Ratio | 42.0% | | | | |
| Oblig. \$217.8 mill. | | | | | | | | | | | | | | | | | 901.1 | 990.4 | 1076.2 | 1355.7 | 1497.3 | 1690.4 | 1904.4 | 2191.4 | 2306.6 | 2495.5 | 2600 | 2750 | Total Capital (\$mill) | 3200 | | | | |
| Pfd Stock None | | | | | | | | | | | | | | | | | 1251.4 | 1368.1 | 1490.8 | 1824.3 | 2069.8 | 2280.0 | 2506.0 | 2792.8 | 2997.4 | 3227.3 | 3380 | 3480 | Net Plant (\$mill) | 3750 | | | | |
| Common Stock 137,540,249 shares as of 10/26/10 | | | | | | | | | | | | | | | | | 7.4% | 7.8% | 7.6% | 6.4% | 6.7% | 6.9% | 6.4% | 5.9% | 5.7% | 5.6% | 5.0% | 5.0% | Return on Total Cap'l | 5.0% | | | | |
| MARKET CAP: \$3.2 billion (Mid Cap) | | | | | | | | | | | | | | | | | 11.7% | 12.3% | 12.7% | 10.2% | 10.7% | 11.2% | 10.0% | 9.7% | 9.3% | 9.4% | 11.0% | 11.0% | Return on Shr. Equity | 12.0% | | | | |
| CURRENT POSITION | | | | | | | | | | | | | | | | | 11.7% | 12.4% | 12.7% | 10.2% | 10.7% | 11.2% | 10.0% | 9.7% | 9.3% | 9.4% | 11.0% | 11.0% | Return on Com Equity | 12.0% | | | | |
| 2008 | | | | | | | | | | | | | | | | | 4.7% | 5.1% | 5.2% | 4.2% | 4.6% | 4.9% | 3.7% | 3.2% | 2.8% | 2.7% | 4.0% | 4.0% | Retained to Com Eq | 4.0% | | | | |
| 2009 | | | | | | | | | | | | | | | | | 60% | 59% | 59% | 59% | 57% | 56% | 63% | 67% | 70% | 72% | 65% | 64% | All Div'ds to Net Prof | 66% | | | | |
| 9/30/10 | | | | | | | | | | | | | | | | | 14.9 | 21.9 | 13.6 | | | | | | | | | | | | | | | |
| CASH ASSETS | | | | | | | | | | | | | | | | | 84.5 | 78.7 | 96.5 | | | | | | | | | | | | | | | |
| RECEIVABLES | | | | | | | | | | | | | | | | | 9.8 | 9.5 | 10.0 | | | | | | | | | | | | | | | |
| INVENTORY (AVG CST) | | | | | | | | | | | | | | | | | 11.8 | 11.5 | 29.1 | | | | | | | | | | | | | | | |
| OTHER | | | | | | | | | | | | | | | | | 121.0 | 121.6 | 149.2 | | | | | | | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | | | | | | | | | 50.0 | 57.9 | 36.5 | | | | | | | | | | | | | | | |
| ACCTS PAYABLE | | | | | | | | | | | | | | | | | 87.9 | 87.0 | 12.8 | | | | | | | | | | | | | | | |
| DEBT DUE | | | | | | | | | | | | | | | | | 55.3 | 56.1 | 157.3 | | | | | | | | | | | | | | | |
| OTHER | | | | | | | | | | | | | | | | | 193.2 | 201.0 | 206.6 | | | | | | | | | | | | | | | |
| CURRENT LIAB. | | | | | | | | | | | | | | | | | 329% | 346% | 325% | | | | | | | | | | | | | | | |
| FIX. CHG. COV. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | | | | | | | | | | | | | | Past 10 Yrs. | Past 5 Yrs. | Est'd '07-'09 to '13-'15 | | | | | | | | | | | | | | | |
| of change (per sh) | | | | | | | | | | | | | | | | | 8.0% | 8.5% | 6.0% | | | | | | | | | | | | | | | |
| REVENUES | | | | | | | | | | | | | | | | | 9.0% | 8.0% | 6.5% | | | | | | | | | | | | | | | |
| "CASH FLOW" | | | | | | | | | | | | | | | | | 6.5% | 5.0% | 7.5% | | | | | | | | | | | | | | | |
| EARNINGS | | | | | | | | | | | | | | | | | 7.5% | 8.0% | 6.5% | | | | | | | | | | | | | | | |
| DIVIDENDS | | | | | | | | | | | | | | | | | 9.5% | 8.5% | 4.0% | | | | | | | | | | | | | | | |
| BOOK VALUE | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| QUARTERLY REVENUES (\$mill.) | | | | | | | | | | | | | | | | | Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year | | | | | | | | | | | | |
| 2007 | | | | | | | | | | | | | | | | | 137.3 | 150.6 | 165.5 | 149.1 | 602.5 | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | | 139.3 | 151.0 | 177.1 | 159.6 | 627.0 | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | | 154.5 | 167.3 | 180.8 | 167.9 | 670.5 | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | | 160.5 | 178.4 | 207.8 | 183.3 | 730 | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | | 180 | 185 | 210 | 195 | 770 | | | | | | | | | | | | | |
| EARNINGS PER SHARE ^A | | | | | | | | | | | | | | | | | Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year | | | | | | | | | | | | |
| 2007 | | | | | | | | | | | | | | | | | .13 | .17 | .22 | .19 | .71 | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | | .11 | .17 | .26 | .19 | .73 | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | | .14 | .19 | .25 | .20 | .77 | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | | .16 | .22 | .32 | .20 | .90 | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | | .17 | .23 | .34 | .23 | .97 | | | | | | | | | | | | | |
| QUARTERLY DIVIDENDS PAID ^B | | | | | | | | | | | | | | | | | Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year | | | | | | | | | | | | |
| 2007 | | | | | | | | | | | | | | | | | .115 | .115 | .125 | .125 | .48 | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | | .125 | .125 | .125 | .135 | .51 | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | | .135 | .135 | .135 | .145 | .55 | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | | .145 | .145 | .145 | .155 | .59 | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

LEGENDS
1.60 x Dividends p sh divided by Interest Rate
Relative Price Strength
4-for-3 split 1/98
5-for-4 split 12/00
5-for-4 split 12/01
5-for-4 split 12/03
4-for-3 split 12/05
Options: Yes
Shaded areas indicate recessions

Insider Decisions
F M A M J J A S O
to Buy 0 1 0 1 0 0 0 1 0
Options 1 0 1 0 0 0 0 2 1
to Sell 0 0 1 0 0 3 0 2 1

Institutional Decisions
10/2010 20/2010 3Q2010
to Buy 106 92 90
to Sell 106 119 101
Hld's(000) 57767 60654 59791

Percent shares traded
15
10
5

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BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '09: residential, 58.5%; commercial, 14%; industrial & other, 27.5%. Officers and directors own 1.5% of the common stock (4/10 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

We have raised our near-term estimates for Aqua America. Hot and dry weather in the east provided a considerable boost to earnings in the third quarter. As a result, 2010 share net likely rose more than 15% compared to a year ago. As the company continues expanding its customer base, profits should remain on the upswing in 2011 and beyond.

Acquisitions are driving much of the revenue growth. Indeed, 14 purchases were made in the third quarter alone, bringing the full year total to 26. Aqua America's Texas subsidiary also bought the assets of Gray Utility. This acquisition is slated to bring about 6,000 new customers into the fold in 2011. Looking ahead, it is likely that the company will make a play for all or part of Acuarion, a Connecticut-based water utility with considerable connections. Finally, given the fragmented nature of the industry and the lack of major players, we believe that Aqua America will continue expanding aggressively in the years to come. This should bolster the top and bottom lines over the 3 to 5 year pull.

Favorable rate rulings are contribut-

ing, as well. Thus far, the company has received rate hikes in various states, including North Carolina, New York, Ohio, Indiana, and Maine. There are several other rate cases pending, the results of which should be ruled on in the first quarter of 2011. The decisions are likely to positively impact revenue and profit streams this year and the next.

Aqua America's future looks bright. The company is well positioned to continue growing via acquisitions. Indeed, Aqua is well capitalized, and management anticipates further expansions in 2011 and beyond. Finally, unlike many of its competitors, the company is also diversifying its holdings. Aqua has invested in solar power and we expect it to become a solid presence in this market in the future.

Income investors should find this issue of interest. Aqua has a long history of steady dividend increases, and we anticipate this trend will continue. However, the current price seems to discount most of our projected Total Return potential. Finally, the stock is ranked to trade in line with the market for the year ahead.

Sahana Zutshi
January 21, 2011

ATTACHMENT B

Stocks in the Natural Gas Utility Industry generally posted a good performance over the past few months. However, this run was less impressive when compared to the stock market rally of late. Consequently, this group remains ranked in the bottom half of our Industry spectrum.

Regardless, the companies herein have been operating amid tough market conditions in recent months. The weakness in the housing market continues to weigh on results. These utilities continue to work to offset these pressure via numerous business strategies. However, near-term prospects will likely continue to be uninspiring until the economic recovery is further along.

Macroeconomic Climate

There has been some good news on the economic front in recent months. Some positive economic reports suggest that the global economy is posting slow growth. However, there are still some areas of concern. Notably, the weakness in the housing market and tight credit environment continue to weigh on this sector. Thus, we expect usage to continue to be impacted by these economic factors for the time being.

Regulation

Rate cases are a key theme for companies in this industry. These utilities are regulated by state commissions that determine the return on equity these companies can achieve. As a result, any pending rate cases remain carefully watched by investors. A favorable ruling can lead to a jump in a stock's price, while an unfavorable ruling can have the opposite effect. The current rate environment is fairly quiet. However, there are a few notable cases pending. For example, *WGL Holdings* and *Southwest Gas* both have cases being reviewed by regulatory commissions. All told, we suggest investors pay close attention to the rate environment when evaluating these stocks.

Nonregulated Activities

Many of the members here continue to invest in nonregulated businesses. These often provide opportunities for utilities to diversify their operations and improve profitability. The fact that these businesses can provide upside to share net is noteworthy, since the return on equity is set by the regulatory state commissions (usually in the 10%-12% range) on the regulated operations.

| Composite Statistics: Natural Gas Utility | | | | | | | |
|---|--------|--------|-------|-------|-------|------------------------|-------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | 14-16 |
| 38528 | 44207 | 34909 | 42000 | 44500 | 47500 | Revenues (\$mill) | 54250 |
| 1562.4 | 1694.2 | 1677.6 | 1650 | 1725 | 1825 | Net Profit (\$mill) | 2175 |
| 33.9% | 35.7% | 33.8% | 36.0% | 36.0% | 36.0% | Income Tax Rate | 36.0% |
| 4.1% | 3.8% | 4.8% | 3.9% | 3.9% | 3.8% | Net Profit Margin | 4.0% |
| 50.4% | 50.6% | 49.9% | 52.0% | 52.0% | 51.0% | Long-Term Debt Ratio | 54.0% |
| 49.5% | 49.4% | 50.1% | 48.0% | 48.0% | 49.0% | Common Equity Ratio | 46.0% |
| 32263 | 32729 | 33974 | 34750 | 36250 | 37750 | Total Capital (\$mill) | 43000 |
| 33936 | 35342 | 37292 | 38500 | 40250 | 42250 | Net Plant (\$mill) | 50500 |
| 6.5% | 6.8% | 6.5% | 6.5% | 6.5% | 5.0% | Return on Total Cap'l | 5.0% |
| 9.8% | 10.5% | 10.0% | 10.5% | 10.0% | 10.0% | Return on Shr. Equity | 10.0% |
| 9.8% | 10.5% | 10.0% | 10.5% | 10.0% | 10.0% | Return on Com Equity | 10.0% |
| 3.7% | 4.3% | 3.8% | 4.5% | 4.0% | 3.5% | Retained to Com Eq | 4.0% |
| 62% | 59% | 61% | 63% | 61% | 60% | All Div'ds to Net Prof | 59% |
| 16.6 | 13.9 | 12.8 | | | | Avg Ann'l P/E Ratio | 13.0 |
| .88 | .83 | .88 | | | | Relative P/E Ratio | .85 |
| 3.7% | 4.2% | 4.1% | | | | Avg Ann'l Div'd Yield | 4.6% |
| 336% | 358% | 381% | 375% | 375% | 375% | Fixed Charge Coverage | 400% |

Bold figures are
Value Line
estimates

INDUSTRY TIMELINESS: 68 (of 97)

Looking ahead, nonregulated ventures will likely continue to become a more important theme for this sector over the coming years, given their potential to generate higher profits.

Recent Developments

There has been some news of consolidation in this industry since our last review. *Nicor* made headlines recently after it agreed to be purchased by *AGL Resources* for \$2.4 billion. The merger would create one of the largest natural gas distributors in the United States. The deal is expected to close in the second half of 2011. We would not be surprised to see other acquisitions in this sector in the not-so-distant future, given the improving economic climate. Another notable development is the increasing interest in "green" initiatives by natural gas utilities. State governments have increasingly been offering energy-efficiency programs in an effort to help these companies adapt to industry trends and to promote conservation. Consequently, numerous companies have been investing in "green" energy. For example, *New Jersey Resources* has been pushing forward with its solar initiative.

Weather

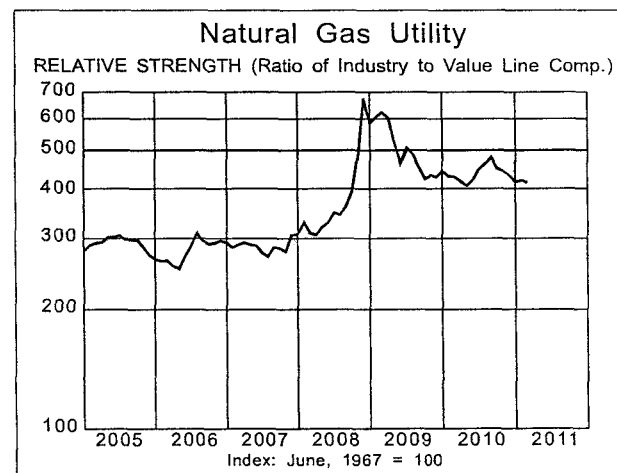
Weather remains another important factor to consider when looking at this group. Unseasonably warm or cold weather can have a notable impact on results as well as on natural gas prices. A particularly cold winter this year has helped results for many of the players in this group. However, weak natural gas prices widely offset the majority of the gains in usage.

Conclusion

Momentum investors can probably find better options in a different industry group. Indeed, this sector's near-term prospects do not stand out. Total return potential 3- to 5-year hence is also widely unattractive. Thus, we suggest patient investors look elsewhere.

The main appeal of this sector is its above-average dividend yield. The average yield is approximately 3.8%, which is about twice the *Value Line* median. Consequently, income-oriented investors may find some of the stocks in this group of interest. *NiSource* and *AGL Resources* have particularly attractive dividend yields.

Richard Gallagher



| AGL RESOURCES NYSE-AGL | | | | | | | | | | RECENT PRICE | 38.14 | P/E RATIO | 12.9 | (Trailing: 12.7 Median: 13.0) | RELATIVE P/E RATIO | 0.79 | DIV'D YLD | 4.7% | VALUE LINE | | | | | | | | | | | | | | | | | |
|---|---------------------------------------|-----------------|--|-------------|-----------|-------|-------|-------|-------|--------------|--------|-----------|--------|-------------------------------|--------------------|--------|-----------|-----------------------------------|--------------------|-------|-------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| TIMELINESS | 3 | Raised 3/11/11 | High: 23.2 | 24.5 | 25.0 | 29.3 | 33.7 | 39.3 | 40.1 | 44.7 | 39.1 | 37.5 | 40.1 | 38.9 | | | | | Target Price Range | | | | | | | | | | | | | | | | | |
| SAFETY | 2 | New 7/27/90 | Low: 15.5 | 19.0 | 17.3 | 21.9 | 26.5 | 32.0 | 34.4 | 35.2 | 24.0 | 24.0 | 34.2 | 35.7 | | | | | 2014 2015 2016 | | | | | | | | | | | | | | | | | |
| TECHNICAL | 4 | Lowered 3/11/11 | LEGENDS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BETA | .75 | (1.00 = Market) | 1.10 x Dividends p sh divided by Interest Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Price | 65 | Gain (+70%) | 18% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| High | 65 | Low | 50 | Gain (+30%) | 11% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | M | J | J | A | S | O | N | D | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Options | 2 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 2 | 0 | 0 | 0 | 0 | 2 | 0 | 1 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q2010 | 104 | 110 | 109 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 104 | 110 | 109 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 103 | 116 | 96 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hld's(000) | 46225 | 46214 | 46899 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 | | | | | | | | | | | | | | | | | |
| 19.32 | 21.91 | 22.75 | 23.36 | 18.71 | 11.25 | 19.04 | 15.32 | 15.25 | 23.89 | 34.98 | 33.73 | 32.64 | 36.41 | 29.88 | 30.42 | 33.25 | 34.45 | Revenues per sh ^A | 37.95 | | | | | | | | | | | | | | | | | |
| 2.33 | 2.49 | 2.42 | 2.65 | 2.29 | 2.86 | 3.31 | 3.39 | 3.47 | 3.29 | 4.20 | 4.50 | 4.65 | 4.68 | 4.90 | 5.05 | 5.20 | 5.40 | "Cash Flow" per sh | 5.90 | | | | | | | | | | | | | | | | | |
| 1.33 | 1.37 | 1.37 | 1.41 | .91 | 1.29 | 1.50 | 1.82 | 2.08 | 2.28 | 2.48 | 2.72 | 2.72 | 2.71 | 2.88 | 3.00 | 3.15 | 3.30 | Earnings per sh ^{A B} | 3.75 | | | | | | | | | | | | | | | | | |
| 1.04 | 1.06 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.11 | 1.15 | 1.30 | 1.48 | 1.64 | 1.68 | 1.72 | 1.76 | 1.80 | 1.84 | Div'ds Decl'd per sh ^C | 1.96 | | | | | | | | | | | | | | | | | |
| 2.17 | 2.37 | 2.59 | 2.05 | 2.51 | 2.92 | 2.83 | 3.30 | 2.46 | 3.44 | 3.44 | 3.26 | 3.39 | 4.84 | 6.14 | 6.54 | 2.55 | 1.30 | Cap'l Spending per sh | 5.05 | | | | | | | | | | | | | | | | | |
| 10.12 | 10.56 | 10.99 | 11.42 | 11.59 | 11.50 | 12.19 | 12.52 | 14.66 | 18.06 | 19.29 | 20.71 | 21.74 | 21.48 | 22.95 | 23.24 | 24.70 | 25.25 | Book Value per sh ^D | 30.70 | | | | | | | | | | | | | | | | | |
| 55.02 | 55.70 | 56.60 | 57.30 | 57.10 | 54.00 | 55.10 | 56.70 | 64.50 | 76.70 | 77.70 | 77.70 | 76.40 | 76.90 | 77.54 | 78.00 | 78.20 | 78.40 | Common Shs Outst'g ^E | 79.00 | | | | | | | | | | | | | | | | | |
| 12.6 | 13.8 | 14.7 | 13.9 | 21.4 | 13.6 | 14.6 | 12.5 | 12.5 | 13.1 | 14.3 | 13.5 | 14.7 | 12.3 | 11.2 | 12.9 | | | Avg Ann'l P/E Ratio | 15.0 | | | | | | | | | | | | | | | | | |
| .84 | .86 | .85 | .72 | 1.22 | .88 | .75 | .68 | .71 | .69 | .76 | .73 | .78 | .74 | .75 | .79 | | | Relative P/E Ratio | 1.00 | | | | | | | | | | | | | | | | | |
| 6.2% | 5.6% | 5.4% | 5.5% | 5.5% | 6.2% | 4.9% | 4.7% | 4.3% | 3.9% | 3.7% | 4.0% | 4.1% | 5.0% | 5.4% | 4.7% | | | Avg Ann'l Div'd Yield | 4.2% | | | | | | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 12/31/10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Debt \$2705.0 mill. Due in 5 Yrs \$732.0 mill. | | | | | | | | | | 1049.3 | 868.9 | 983.7 | 1832.0 | 2718.0 | 2621.0 | 2494.0 | 2800.0 | 2317.0 | 2373.0 | 2600 | 2700 | | | | | | | | | | | | | | | |
| LT Debt \$1673.0 mill. LT Interest \$109.0 mill. | | | | | | | | | | 82.3 | 103.0 | 132.4 | 153.0 | 193.0 | 212.0 | 211.0 | 207.6 | 222.0 | 234.0 | 245 | 260 | | | | | | | | | | | | | | | |
| (Total interest coverage: 6.5x) | | | | | | | | | | 40.7% | 36.0% | 35.9% | 37.0% | 37.7% | 37.8% | 37.6% | 40.5% | 35.2% | 35.9% | 35.0% | 35.0% | | | | | | | | | | | | | | | |
| Leases, Uncapitalized Annual rentals \$95.0 mill. | | | | | | | | | | 7.8% | 11.9% | 13.5% | 8.4% | 7.1% | 8.1% | 8.5% | 7.4% | 9.6% | 9.9% | 9.5% | 9.5% | | | | | | | | | | | | | | | |
| Pension Assets-12/10 \$344.0 mill. Oblig. \$531.0 mill. | | | | | | | | | | 61.3% | 58.3% | 50.3% | 54.0% | 51.9% | 50.2% | 50.2% | 50.3% | 52.6% | 48.0% | 45.0% | 44.0% | | | | | | | | | | | | | | | |
| Pfd Stock None | | | | | | | | | | 38.7% | 41.7% | 49.7% | 46.0% | 48.1% | 49.8% | 49.8% | 49.7% | 47.4% | 52.0% | 55.0% | 56.0% | | | | | | | | | | | | | | | |
| Common Stock 77,999,557 shs. as of 1/31/11 | | | | | | | | | | 1736.3 | 1704.3 | 1901.4 | 3008.0 | 3114.0 | 3231.0 | 3335.0 | 3327.0 | 3754.0 | 3486.0 | 3515 | 3535 | | | | | | | | | | | | | | | |
| MARKET CAP: \$3.0 billion (Mid Cap) | | | | | | | | | | 2058.9 | 2194.2 | 2352.4 | 3178.0 | 3271.0 | 3436.0 | 3566.0 | 3816.0 | 4146.0 | 4405.0 | 4505 | 4555 | | | | | | | | | | | | | | | |
| CURRENT POSITION 2008 2009 12/31/10 | | | | | | | | | | 6.5% | 8.1% | 8.9% | 6.3% | 7.9% | 8.0% | 7.7% | 7.4% | 6.9% | 7.6% | 7.0% | 7.5% | | | | | | | | | | | | | | | |
| (\$MILL.) | | | | | | | | | | 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | 13.2% | 12.7% | 12.6% | 12.5% | 12.9% | 12.5% | 12.5% | | | | | | | | | | | | | | | |
| Cash Assets | | | | | | | | | | 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | 13.2% | 12.7% | 12.6% | 12.5% | 12.9% | 12.5% | 12.5% | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | 4.2% | 7.0% | 6.6% | 5.6% | 6.2% | 6.3% | 5.3% | 5.1% | 5.3% | 5.6% | 6.5% | 5.5% | | | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | 65% | 52% | 53% | 49% | 52% | 52% | 58% | 60% | 57% | 57% | 55% | 56% | | | | | | | | | | | | | | | |
| Accts Payable | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Debt Due | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current Liab. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| of change (per sh) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenues | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| "Cash Flow" | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Earnings | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dividends | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Book Value | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | QUARTERLY REVENUES (\$mill.) | | | | Full Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | 1012 | 444 | 539 | 805 | 2800 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | 995 | 377 | 307 | 638 | 2317 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | 1003 | 359 | 346 | 665 | 2373 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | 1100 | 365 | 360 | 775 | 2600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | 1200 | 390 | 380 | 730 | 2700 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | EARNINGS PER SHARE ^B | | | | Full Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | 1.16 | .30 | .28 | .97 | 2.71 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | 1.55 | .26 | .16 | .91 | 2.88 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | 1.73 | .17 | .29 | .81 | 3.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | 1.50 | .35 | .30 | 1.00 | 3.15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | 1.60 | .40 | .45 | .85 | 3.30 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | QUARTERLY DIVIDENDS PAID ^C | | | | Full Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2007 | .41 | .41 | .41 | .41 | 1.64 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | .42 | .42 | .42 | .42 | 1.68 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | .43 | .43 | .43 | .43 | 1.72 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | .44 | .44 | .44 | .44 | 1.76 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | .45 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 5.1% of common stock; off/dir., less than 1.0% (3/10 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

AGL Resources should perform well in 2011. The company is set to benefit from several factors this year. These include rate increases and the startup of the Golden Triangle project (discussed below). **Rate cases and expansion projects are likely to drive earnings in 2011 and beyond.** The Golden Triangle project, which came partially on line in 2010, is poised to add considerably to the top line over the next few years as it materially increases the company's storage capacity. The expansion should aid AGL Resources by growing its customer base, as well. The company has also filed several rate increase cases, the most recent one concerning Virginia Natural Gas. Given its favorable rate case history, we do not foresee any problems at this time. The rate rises are likely to bolster the bottom line out to the 2014-2016 time frame.

Mergers should play a key part in growth over the next few years, as well. 2010 was one of the most active years for consolidations in the utility industry. We expect this trend to accelerate in 2011, as many companies appear to be good acquisition targets. AGL Resources

has already become a forerunner in this segment, with the purchase of Nicor, set to be finalized within the next few months. Given the weak operating environment, and the fact that acquisitions are a quick way to increase market share, we expect AGL take advantage of further opportunities over the next few years.

The company is set to do well over the long term. One concern is the fact that production is at unprecedented levels, a result of the discovery of several shale gas reserves. The high storage levels, resulting in lower prices, are set to put downward pressure on the profitability of the storage and pipeline segments. But, the continued economic recovery, increased customer demand, and stringent expense control measures should ensure that the company will successfully navigate these obstacles.

Investors should take a look at this neutrally ranked issue. The dividend yield is above the industry average at this time, and we believe that the payout will be increased in the years ahead. AGL Resources appears to be a good pick for the long term.

Sahana Zutshi

March 11, 2011

| ATMOS ENERGY CORP. NYSE-ATO | | | | | | | | | | RECENT PRICE | 33.86 | P/E RATIO | 14.7 | (Trailing: 17.2 Median: 14.0) | RELATIVE P/E RATIO | 0.90 | DIV'D YLD | 4.0% | VALUE LINE | | | | | | |
|---|--------|------------------|---|------------------|--------|------|------|------|------|--------------|-------|-----------|------|----------------------------------|--------------------|------|-----------|------|--------------|------|------|------|--|--|--|
| TIMELINESS | 3 | Raised 2/25/11 | High: 26.3 | 25.8 | 24.5 | 25.5 | 27.6 | 30.0 | 33.1 | 33.5 | 29.3 | 30.3 | 32.0 | 34.3 | | | | | Target Price | 2014 | 2015 | 2016 | | | |
| SAFETY | 2 | Raised 12/16/05 | Low: 14.3 | 19.5 | 17.6 | 20.8 | 23.4 | 25.0 | 25.5 | 23.9 | 19.7 | 20.1 | 25.9 | 31.3 | | | | | | | | | | | |
| TECHNICAL | 3 | Lowered 12/10/10 | LEGENDS 1.00 = Dividends p sh divided by Interest Rate ... Relative Price Strength Options: Yes Shaded areas indicate recessions | | | | | | | | | | | | | | | | | | | | | | |
| BETA | .65 | (1.00 = Market) | | | | | | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | | | | | | |
| Price | 40 | Gain | Ann'l Total | | | | | | | | | | | | | | | | | | | | | | |
| High | 40 | (+20%) | Return | | | | | | | | | | | | | | | | | | | | | | |
| Low | 30 | (-10%) | 8% | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | M | J | J | A | S | O | N | D | | | | | | | | | | | | | | | | | |
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | | | | | |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | | | | | | | | | | | | | | | | | |
| to Sell | 0 | 0 | 0 | 1 | 0 | 0 | 3 | 0 | | | | | | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q2010 | 2Q2010 | 3Q2010 | Percent | 12 | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 115 | 107 | 90 | 8 | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 95 | 100 | 106 | 4 | | | | | | | | | | | | | | | | | | | | | |
| Mid's(000) | 51556 | 52963 | 50893 | traded | | | | | | | | | | | | | | | | | | | | | |
| Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others. | | | | | | | | | | | | | | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 12/31/10 Total Debt \$2407.7 mill. Due in 5 Yrs \$1240.0 mill. LT Debt \$1807.3 mill. LT Interest \$110.0 mill. (LT interest earned: 3.2x; total interest coverage: 3.1x) Leases, Uncapitalized Annual rentals \$18.2 mill. Pfd Stock None Pension Assets-9/10 \$301.7 mill. Oblig. \$407.5 mill. Common Stock 90,648,911 shs. as of 2/3/11 MARKET CAP: \$3.1 billion (Mid Cap) | | | | | | | | | | | | | | | | | | | | | | | | | |
| CURRENT POSITION | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | 2010 | 12/31/10 | | | | | | | | | | | | | | | | | | | | | | | |
| Cash Assets | 111.2 | 132.0 | 129.9 | | | | | | | | | | | | | | | | | | | | | | |
| Other | 717.7 | 743.2 | 1133.4 | | | | | | | | | | | | | | | | | | | | | | |
| Current Assets | 828.9 | 875.2 | 1263.3 | | | | | | | | | | | | | | | | | | | | | | |
| Accts Payable | 207.4 | 266.2 | 510.1 | | | | | | | | | | | | | | | | | | | | | | |
| Debt Due | 72.7 | 486.2 | 600.4 | | | | | | | | | | | | | | | | | | | | | | |
| Other | 457.3 | 413.7 | 349.9 | | | | | | | | | | | | | | | | | | | | | | |
| Current Liab. | 737.4 | 1166.1 | 1460.4 | | | | | | | | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. | 416% | 440% | 435% | | | | | | | | | | | | | | | | | | | | | | |
| ANNUAL RATES of change (per sh) | | | | | | | | | | | | | | | | | | | | | | | | | |
| Past 10 Yrs. | 5 Yrs. | Past 5 Yrs. | Est'd '08-'10 | | | | | | | | | | | | | | | | | | | | | | |
| Revenues | 9.5% | 3.0% | 3.0% | | | | | | | | | | | | | | | | | | | | | | |
| "Cash Flow" | 4.0% | 5.5% | 4.0% | | | | | | | | | | | | | | | | | | | | | | |
| Earnings | 5.0% | 4.0% | 5.0% | | | | | | | | | | | | | | | | | | | | | | |
| Dividends | 2.0% | 1.5% | 2.0% | | | | | | | | | | | | | | | | | | | | | | |
| Book Value | 6.5% | 5.0% | 4.5% | | | | | | | | | | | | | | | | | | | | | | |
| Fiscal Year Ends | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year | | | | | | | | | | | | | | | | | | | | | |
| 2008 | 1657.5 | 2484.0 | 1639.1 | 1440.7 | 7221.3 | | | | | | | | | | | | | | | | | | | | |
| 2009 | 1716.3 | 1821.4 | 780.8 | 650.6 | 4969.1 | | | | | | | | | | | | | | | | | | | | |
| 2010 | 1292.9 | 1940.3 | 770.2 | 786.3 | 4789.7 | | | | | | | | | | | | | | | | | | | | |
| 2011 | 157.0 | 2025 | 820 | 818 | 4820 | | | | | | | | | | | | | | | | | | | | |
| 2012 | 1110 | 1970 | 1050 | 850 | 4980 | | | | | | | | | | | | | | | | | | | | |
| Fiscal Year Ends | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year | | | | | | | | | | | | | | | | | | | | | |
| 2008 | .82 | 1.24 | d.07 | .02 | 2.00 | | | | | | | | | | | | | | | | | | | | |
| 2009 | .83 | 1.29 | .02 | d.17 | 1.97 | | | | | | | | | | | | | | | | | | | | |
| 2010 | 1.00 | 1.17 | d.03 | .02 | 2.16 | | | | | | | | | | | | | | | | | | | | |
| 2011 | .81 | 1.37 | .09 | .03 | 2.30 | | | | | | | | | | | | | | | | | | | | |
| 2012 | .97 | 1.35 | .06 | .02 | 2.40 | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year | | | | | | | | | | | | | | | | | | | | | |
| 2007 | .32 | .32 | .32 | .325 | 1.29 | | | | | | | | | | | | | | | | | | | | |
| 2008 | .325 | .325 | .325 | .33 | 1.31 | | | | | | | | | | | | | | | | | | | | |
| 2009 | .33 | .33 | .33 | .335 | 1.33 | | | | | | | | | | | | | | | | | | | | |
| 2010 | .335 | .335 | .335 | .34 | 1.35 | | | | | | | | | | | | | | | | | | | | |
| 2011 | .34 | | | | | | | | | | | | | | | | | | | | | | | | |
| BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2010 gas volumes: 323 MMcf. Breakdown: 59%, residential; | | | | | | | | | | | | | | | | | | | | | | | | | |
| 32%, commercial; 6%, industrial; and 3% other. 2010 depreciation rate 3.3%. Has around 4,915 employees. Officers and directors own 1.4% of common stock (12/10 Proxy). President and Chief Executive Officer: Kim R. Cocklin, Inc.: Texas. Address: Three Lincoln Centre, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240. Telephone: 972-934-9227. Internet: www.atmosenergy.com. | | | | | | | | | | | | | | | | | | | | | | | | | |
| Atmos Energy's share net plunged nearly 20% in the opening quarter of fiscal 2011, versus the year-earlier tally. The shortfall was attributable largely to the nonregulated segment, which experienced a modest unrealized net gain, relative to a much larger \$0.29 gain the previous year. | | | | | | | | | | | | | | | | | | | | | | | | | |
| But there were some positives. The gas utility posted improved earnings, as it benefited from higher rates in such states as Missouri, Kansas, Kentucky, and Texas. But these results were held back a bit by a 10% drop in throughput, reflecting warmer weather. Meanwhile, the regulated transmission and storage unit enjoyed an increase in fixed-fee services and revenues from filings under the Texas Gas Reliability Infrastructure Program. Lower per-unit transportation margins were somewhat of an offset here. | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consolidated share net stands to advance almost 7%, to \$2.30, for the full fiscal year. This is based partly on our assumption that the nonregulated segment bounces back. Too, continued decent showings from the natural gas utility and regulated transmission and storage unit | | | | | | | | | | | | | | | | | | | | | | | | | |
| seem plausible. Next year, the bottom line may well increase at a similar rate, to \$2.40 a share, as we look for a further expansion of operating margins. | | | | | | | | | | | | | | | | | | | | | | | | | |
| Steady, though unexciting, results appear to be in store for the company out to 2014-2016. The utility is one of the country's largest natural gas-only distributors. Moreover, the unregulated segments, especially pipelines, possess healthy overall growth prospects. Lastly, management may resume its successful strategy of purchasing less efficient utilities and shoring up their profitability via expense-reduction initiatives, rate relief, and aggressive marketing efforts. But excluding future acquisitions, due to many uncertainties, annual share-net growth may be in the mid-single-digit range over the 3- to 5-year horizon. | | | | | | | | | | | | | | | | | | | | | | | | | |
| The good-quality stock boasts a dividend yield that is higher than many natural gas utility stocks covered by Value Line. Additional increases in the distribution, though modest, seem likely. Meanwhile, these shares are ranked Average (3) for Timeliness. | | | | | | | | | | | | | | | | | | | | | | | | | |
| Frederick L. Harris, III March 11, 2011 | | | | | | | | | | | | | | | | | | | | | | | | | |

| | | | | | | | | |
|--------------|-------|-----------|------------------------------------|--------------------|------|-----------|------|------------|
| RECENT PRICE | 38.30 | P/E RATIO | 15.0 (Trailing: 15.6 Median: 14.0) | RELATIVE P/E RATIO | 0.92 | DIV'D YLD | 4.3% | VALUE LINE |
|--------------|-------|-----------|------------------------------------|--------------------|------|-----------|------|------------|

| | | |
|---------------------------------|----------|-----------------|
| TIMELINESS | 3 | Raised 11/19/01 |
| SAFETY | 2 | Raised 6/20/03 |
| TECHNICAL | 4 | Lowered 3/11/11 |
| BETA .60 (1.00 = Market) | | |

| | | |
|-------|------|------|
| High: | 24.8 | 25.5 |
| Low: | 17.5 | 21.3 |

LEGENDS

— 1.00 x Dividends p sh
divided by Interest Rate

.... Relative Price Strength

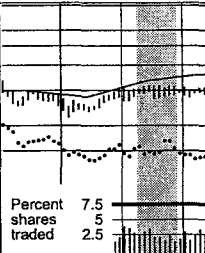
Options: Yes

Shaded areas indicate recessions

| 2014-16 PROJECTIONS | | | |
|---------------------|-------|--------|--------------------|
| | Price | Gain | Ann'l Total Return |
| High | 55 | (+45%) | 13% |
| Low | 40 | (+5%) | 6% |

[illegible]

| Institutional Decisions | | | |
|-------------------------|--------|--------|--------|
| | 1Q2010 | 2Q2010 | 3Q2010 |
| to Buy | 55 | 63 | 54 |
| to Sell | 60 | 58 | 53 |
| Hld's(000) | 10279 | 10043 | 10165 |



| | THIS STOCK | VL. ARITH. INDEX |
|-------|---------------|---------------------|
| 1 yr. | 24.3 | 31.2 |
| 3 yr. | 29.6 | 45.8 |
| 5 yr. | 43.7 | 48.1 |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 | |
|--|-------|-------|-------|-------|-------|----------|-------|--------|--------|--------|--------|--------|--------|--------|--------|---|-------|-----------------------------------|------------------------|-----|
| 24.79 | 31.03 | 34.33 | 31.04 | 26.04 | 29.99 | 53.08 | 39.84 | 54.95 | 59.59 | 75.43 | 93.51 | 93.40 | 100.44 | 85.49 | 77.83 | 77.80 | 78.90 | Revenues per sh | 96.15 | |
| 2.55 | 3.29 | 3.32 | 3.02 | 2.56 | 2.68 | 3.00 | 2.56 | 3.15 | 2.79 | 2.98 | 3.81 | 3.87 | 4.22 | 4.56 | 4.11 | 4.35 | 4.50 | "Cash Flow" per sh | 5.20 | |
| 1.27 | 1.87 | 1.84 | 1.58 | 1.47 | 1.37 | 1.61 | 1.18 | 1.82 | 1.82 | 1.90 | 2.37 | 2.31 | 2.64 | 2.92 | 2.43 | 2.55 | 2.65 | Earnings per sh ^{A B} | 3.15 | |
| 1.24 | 1.26 | 1.30 | 1.32 | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 1.35 | 1.37 | 1.40 | 1.45 | 1.49 | 1.53 | 1.57 | 1.61 | 1.65 | Div'ds Decl'd per sh ^C | 1.80 | |
| 2.63 | 2.35 | 2.44 | 2.68 | 2.58 | 2.77 | 2.51 | 2.80 | 2.67 | 2.45 | 2.84 | 2.97 | 2.72 | 2.57 | 2.36 | 2.56 | 2.70 | 2.80 | Cap'l Spending per sh | 3.20 | |
| 13.05 | 13.72 | 14.26 | 14.57 | 14.96 | 14.99 | 15.26 | 15.07 | 15.65 | 16.96 | 17.31 | 18.85 | 19.79 | 22.12 | 23.32 | 24.02 | 24.95 | 25.55 | Book Value per sh ^D | 31.15 | |
| 17.42 | 17.56 | 17.56 | 17.63 | 18.88 | 18.88 | 18.88 | 18.96 | 19.11 | 20.98 | 21.17 | 21.36 | 21.65 | 21.99 | 22.17 | 22.29 | 22.50 | 23.00 | Common Shs Outst'g ^E | 26.00 | |
| 15.5 | 11.9 | 12.5 | 15.5 | 15.8 | 14.9 | 14.5 | 20.0 | 13.6 | 15.7 | 16.2 | 13.6 | 14.2 | 14.3 | 13.4 | 13.7 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 15.5 | |
| 1.04 | .75 | .72 | .81 | .90 | .97 | .74 | 1.09 | .78 | .83 | .86 | .73 | .75 | .86 | .89 | .87 | | | Relative P/E Ratio | 1.05 | |
| 6.3% | 5.6% | 5.6% | 5.4% | 5.8% | 6.6% | 5.7% | 5.7% | 5.4% | 4.7% | 4.4% | 4.3% | 4.4% | 3.9% | 3.9% | 4.7% | | | Avg Ann'l Div'd Yield | 3.8% | |
| CAPITAL STRUCTURE as of 12/31/10 Total Debt \$461.8 mill. Due in 5 Yrs \$155.0 mill. LT Debt \$364.3 mill. LT Interest \$20.0 mill. (Total interest coverage: 4.0x) | | | | | | 1002.1 | 755.2 | 1050.3 | 1250.3 | 1597.0 | 1997.6 | 2021.6 | 2209.0 | 1895.2 | 1735.0 | 1750 | 1815 | Revenues (\$mill) ^A | 2500 | |
| | | | | | | 30.5 | 22.4 | 34.6 | 36.1 | 40.1 | 50.5 | 49.8 | 57.6 | 64.3 | 54.0 | 57.5 | 61.0 | Net Profit (\$mill) | 80.0 | |
| | | | | | | 32.7% | 35.4% | 35.0% | 34.8% | 34.1% | 32.5% | 33.4% | 31.3% | 33.6% | 33.4% | 34.5% | 35.0% | Income Tax Rate | 35.0% | |
| | | | | | | 3.0% | 3.0% | 3.3% | 2.9% | 2.5% | 2.5% | 2.5% | 2.6% | 3.4% | 3.1% | 3.3% | 3.4% | Net Profit Margin | 3.2% | |
| | | | | | | 49.5% | 47.5% | 50.4% | 51.6% | 48.1% | 49.5% | 45.3% | 44.4% | 42.9% | 40.5% | 40.0% | 40.0% | Long-Term Debt Ratio | 40.0% | |
| Leases, Uncapitalized Annual rentals \$9 mill. Pension Assets-9/10 \$240.9 mill. Oblig. \$398.4 mill. | | | | | | 50.2% | 52.3% | 49.4% | 48.3% | 51.8% | 50.4% | 54.6% | 55.5% | 57.1% | 59.5% | 60.0% | 60.0% | Common Equity Ratio | 60.0% | |
| | | | | | | 574.1 | 546.6 | 605.0 | 737.4 | 707.9 | 798.9 | 784.5 | 876.1 | 906.3 | 899.9 | 935 | 980 | Total Capital (\$mill) | 1350 | |
| | | | | | | 602.5 | 594.4 | 621.2 | 646.9 | 679.5 | 763.8 | 793.8 | 823.2 | 855.9 | 884.1 | 915 | 945 | Net Plant (\$mill) | 1250 | |
| | | | | | | 6.9% | 6.0% | 7.4% | 6.6% | 7.6% | 8.4% | 8.5% | 8.1% | 8.7% | 7.4% | 7.5% | 7.5% | Return on Total Cap'l | 7.0% | |
| | | | | | | 10.5% | 7.8% | 11.5% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.4% | 10.1% | 10.5% | 10.5% | Return on Shr. Equity | 10.0% | |
| MARKET CAP: \$850 million (Small Cap) | | | | | | 10.5% | 7.8% | 11.6% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.4% | 10.1% | 10.5% | 10.5% | Return on Com Equity | 10.0% | |
| | | | | | | 1.8% | NMF | 3.1% | 2.7% | 3.1% | 5.1% | 4.3% | 5.2% | 5.9% | 3.6% | 4.0% | 4.0% | Retained to Com Eq | 4.5% | |
| CURRENT POSITION | | | | 2009 | 2010 | 12/31/10 | 83% | 113% | 74% | 73% | 72% | 59% | 63% | 56% | 53% | 64% | 63% | 62% | All Div'ds to Net Prof | 57% |

| | | | | |
|----------------|-----------|-------|-------|--|
| | (\$MILL.) | | | |
| Cash Assets | 74.6 | 86.9 | 25.1 | |
| Other | 294.2 | 327.3 | 412.6 | |
| Current Assets | 368.8 | 414.2 | 437.7 | |

| | | | |
|---------------|-------|-------|-------|
| Accts Payable | 72.8 | 95.6 | 125.3 |
| Debt Due | 129.8 | 129.6 | 97.5 |
| Other | 96.5 | 108.7 | 92.5 |

| | | | |
|----------------|-------|-------|-------|
| Current Liab. | 299.1 | 333.9 | 315.3 |
| Fix. Chg. Cov. | 420% | 391% | 410% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|------------------------------------|-----------------|----------------|-----------------------------|
| Revenues | 11.5% | 7.0% | 1.5% |
| "Cash Flow" | 4.5% | 7.5% | 3.5% |
| Earnings | 6.0% | 7.5% | 3.0% |
| Dividends | 1.5% | 2.5% | 2.5% |
| Book Value | 4.5% | 7.0% | 5.0% |

| Fiscal Year Ends | QUARTERLY REVENUES (\$ mill.) ^A | | | | Full Fiscal Year |
|------------------------|--|--------|--------|--------|------------------------|
| | Dec.31 | Mar.31 | Jun.30 | Sep.30 | |
| 2008 | 504.0 | 747.7 | 505.5 | 451.8 | 2209.0 |
| 2009 | 674.3 | 659.1 | 309.9 | 251.9 | 1895.2 |
| 2010 | 491.2 | 635.3 | 324.5 | 284.0 | 1735.0 |
| 2011 | 444.2 | 645.8 | 340 | 320 | 1750 |
| 2012 | 490 | 650 | 388 | 287 | 1815 |

| Fiscal Year Ends | EARNINGS PER SHARE ^{ABF} | | | | Full Fiscal Year |
|------------------|-----------------------------------|--------|--------|--------|------------------|
| | Dec.31 | Mar.31 | Jun.30 | Sep.30 | |
| 2008 | .99 | 1.39 | .41 | d.14 | 2.64 |
| 2009 | 1.42 | 1.40 | .31 | d.22 | 2.92 |
| 2010 | 1.03 | 1.26 | .21 | d.07 | 2.43 |
| 2011 | 1.05 | 1.30 | .30 | d.10 | 2.55 |
| 2012 | 1.05 | 1.36 | .36 | d.12 | 2.65 |

| Calendar | QUARTERLY DIVIDENDS PAID [■] | | | | Full Year |
|----------|---------------------------------------|--------|--------|--------|-----------|
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | |
| 2007 | .365 | .365 | .365 | .365 | 1.460 |
| 2008 | .375 | .375 | .375 | .375 | 1.500 |
| 2009 | .385 | .385 | .385 | .385 | 1.540 |
| 2010 | .395 | .395 | .395 | .395 | 1.580 |
| 2011 | .405 | | | | |

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2010: 97 mil. Revenue mix for regulated operations: residential,

Share net for Laclede Group was a couple of pennies higher in the opening quarter of fiscal 2011 (ends September 30th) than the year-earlier tally. Laclede Gas, the core subsidiary, benefited partly from a rate increase that went into effect on September 1, 2010. Too, operating costs here were down, made possible by effective collections efforts and expense-containment initiatives. Meanwhile, profits for Laclede Energy Resources were somewhat better, since results for the first quarter of last year include net unrealized losses on energy-related derivatives. But margins here were lower, as narrower regional price differentials continued (given a less-than-optimal economic environment).

In all, consolidated share net could advance roughly 5%, to \$2.55, in fiscal 2011. Assuming further expansion of operating margins, the bottom line may well rise at a similar rate, to \$2.65 a share, the next year.

Prospects out to 2014-2016 are not exciting. The customer base for the natural gas distributor has tended to grow at a sluggish annual rate for some time. Since

68%; commercial and industrial, 24%; transportation, 2%; other, 6%. Has around 1,700 employees. Officers and directors own approximately 8% of common shares (1/11 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledagroup.com.

the service territory, based in eastern Missouri, is in a mature phase, we expect more of the same going forward. Laclede Energy Resources has promising growth potential, but that unit has contributed only a small portion to total profits, on a historical basis. Consequently, Laclede's annual share-net advances may only be in the mid-single-digit range over the 3- to 5-year horizon. A major acquisition could brighten things, but management appears to be satisfied with the status quo, right now.

The equity's main attraction is the dividend yield, which is a bit higher than the average of all natural gas utility stocks tracked by *Value Line*. The payout should continue to be well-covered by the company's earnings, but future hikes may be moderate, at best. That's largely because of Laclede Gas' unspectacular long-term expansion prospects.

Total return possibilities are not exciting. Indeed, these shares are trading near our 2014-2016 Target Price Range. The dividend will probably continue to grow at a slow rate, as well.

Frederick L. Harris, III March 11, 2011

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru '97, then diluted. Excludes nonrecurring loss: '06. 7¢. Excludes gain from discontinued oper-

ations: '08, 94¢. Next earnings report due late April. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Incl. deferred

(F) Qty. eggs. may not sum due to rounding or change in shares outstanding.

| | |
|------------------------------|-----|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 55 |
| Earnings Predictability | 80 |

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| NEW JERSEY RES. NYSE-NJR | | | | | RECENT PRICE | 41.73 | P/E RATIO | 15.7 | (Trailing: 16.6 Median: 15.0) | RELATIVE P/E RATIO | 0.96 | DIV'D YLD | 3.5% | VALUE LINE | | | | | | | | | |
|--------------------------|-----|------------------|--|--------|--------------|-------|-----------|------|-------------------------------|--------------------|------|-----------|------|------------|------|------|------|------|------|--------------|------|------|------|
| TIMELINESS | 4 | Lowered 3/11/11 | High: 19.8 | 21.7 | 22.4 | 26.4 | 29.7 | 32.9 | 35.4 | 37.6 | 41.1 | 42.4 | 44.1 | 44.1 | 44.1 | 44.1 | 44.1 | 44.1 | 44.1 | Target Price | 2014 | 2015 | 2016 |
| SAFETY | 1 | Raised 9/15/06 | Low: 16.1 | 16.6 | 16.2 | 20.0 | 24.3 | 27.1 | 27.7 | 30.3 | 24.6 | 30.0 | 33.5 | 40.2 | | | | | | | | | |
| TECHNICAL | 3 | Lowered 11/19/10 | LEGENDS 1.40 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-2 split 3/02 3-for-2 split 3/08 Options: Yes Shaded areas indicate recessions | | | | | | | | | | | | | | | | | | | | |
| BETA | .65 | (1.00 = Market) | 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | |
| | | | Price | Gain | Ann'l Total | | | | | | | | | | | | | | | | | | |
| | | | High | 50 | (+20%) | 8% | | | | | | | | | | | | | | | | | |
| | | | Low | 40 | (-5%) | 3% | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | Insider Decisions | | | | | | | | | | | | | | | | | | | | |
| | | | A | M | J | J | A | S | O | N | D | | | | | | | | | | | | |
| | | | to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | |
| | | | Options | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | | | | | | | | | | | | |
| | | | to Sell | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | |
| Institutional Decisions | | | Institutional Decisions | | | | | | | | | | | | | | | | | | | | |
| | | | 1Q2010 | 2Q2010 | 3Q2010 | | | | | | | | | | | | | | | | | | |
| | | | to Buy | 53 | 59 | 60 | | | | | | | | | | | | | | | | | |
| | | | to Sell | 77 | 76 | 64 | | | | | | | | | | | | | | | | | |
| | | | Hid's (100) | 23468 | 23012 | 23366 | | | | | | | | | | | | | | | | | |
| | | | Percent | 12 | 8 | 4 | | | | | | | | | | | | | | | | | |
| | | | shares | 4 | 8 | 4 | | | | | | | | | | | | | | | | | |
| | | | traded | 4 | 8 | 4 | | | | | | | | | | | | | | | | | |
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| N.W. NAT'L GAS NYSE:NWN | | | | | RECENT PRICE | 46.70 | P/E RATIO | 17.9 | (Trailing: 17.1; Median: 16.0) | RELATIVE P/E RATIO | 1.10 | DIV'D YLD | 3.7% | VALUE LINE | | | | | | | | | | | | | | |
|---|---------------------------------------|-----------------|---|--------|--------------|--------------|-------------|--------------------|--------------------------------|--------------------|--------|-----------|--------|------------|--------|---|-------|-----------------------------------|------|------|------|-------|--|--|--|--|--|--|
| TIMELINESS | 3 | Raised 8/13/10 | High: 27.5 | 26.8 | 30.7 | 31.3 | 34.1 | 39.6 | 43.7 | 52.8 | 55.2 | 46.5 | 50.9 | 47.4 | | | | Target Price | 2014 | 2015 | 2016 | | | | | | | |
| SAFETY | 1 | Raised 3/18/05 | Low: 17.8 | 21.7 | 23.5 | 24.0 | 27.5 | 32.4 | 32.8 | 39.8 | 37.7 | 37.7 | 41.1 | 43.9 | | | | | | | | | | | | | | |
| TECHNICAL | 4 | Lowered 3/4/11 | LEGENDS 1.10 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded areas indicate recessions | | | | | | | | | | | | | | | | | | | | | | | | | |
| BETA | .60 | (1.00 = Market) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Price | 60 | Gain (+30%) | 10% | | | | | | | | | | | | | | | | | | | | | | | | | |
| High | 60 | Low | 50 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | M | J | J | A | S | O | N | D | | | | | | | | | | | | | | | | | | | | |
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | | | | | | | | |
| Options | 0 | 2 | 2 | 0 | 3 | 3 | 0 | 0 | | | | | | | | | | | | | | | | | | | | |
| to Sell | 0 | 2 | 2 | 0 | 3 | 4 | 0 | 1 | | | | | | | | | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1Q2010 | 2Q2010 | 3Q2010 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 56 | 62 | 63 | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 69 | 74 | 59 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mid's (000) | 13750 | 15136 | 15723 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUBL. LLC 14-16 | | | | | | | | | | |
| 16.02 | 16.86 | 15.82 | 16.77 | 18.17 | 21.09 | 25.78 | 25.07 | 23.57 | 25.69 | 33.01 | 37.20 | 39.13 | 39.16 | 38.17 | 30.45 | 29.55 | 30.95 | Revenues per sh | | | | 35.25 | | | | | | |
| 3.41 | 3.86 | 3.72 | 3.24 | 3.72 | 3.68 | 3.86 | 3.65 | 3.85 | 3.92 | 4.34 | 4.76 | 5.41 | 5.31 | 5.20 | 5.15 | 5.40 | 5.60 | "Cash Flow" per sh | | | | 6.10 | | | | | | |
| 1.61 | 1.97 | 1.76 | 1.02 | 1.70 | 1.79 | 1.88 | 1.62 | 1.76 | 1.86 | 2.11 | 2.35 | 2.76 | 2.57 | 2.83 | 2.73 | 2.80 | 2.90 | Earnings per sh ^A | | | | 3.20 | | | | | | |
| 1.18 | 1.20 | 1.21 | 1.22 | 1.23 | 1.24 | 1.25 | 1.26 | 1.27 | 1.30 | 1.32 | 1.39 | 1.44 | 1.52 | 1.60 | 1.68 | 1.72 | 1.76 | Div'ds Decl'd per sh ^B | | | | 1.88 | | | | | | |
| 3.02 | 3.70 | 5.07 | 4.02 | 4.78 | 3.46 | 3.23 | 3.11 | 4.90 | 5.52 | 3.48 | 3.56 | 4.48 | 3.92 | 5.09 | 9.30 | 3.75 | 4.50 | Cap'l Spending per sh | | | | 6.70 | | | | | | |
| 14.55 | 15.37 | 16.02 | 16.59 | 17.12 | 17.93 | 18.56 | 18.88 | 19.52 | 20.64 | 21.28 | 22.01 | 22.52 | 23.71 | 24.88 | 25.95 | 26.90 | 28.00 | Book Value per sh | | | | 31.60 | | | | | | |
| 22.24 | 22.56 | 22.86 | 24.85 | 25.09 | 25.23 | 25.23 | 25.59 | 25.94 | 27.55 | 27.58 | 27.24 | 26.41 | 26.50 | 26.53 | 26.67 | 26.75 | 26.80 | Common Shs Outst'g ^C | | | | 26.95 | | | | | | |
| 12.9 | 11.7 | 14.4 | 26.7 | 14.5 | 12.4 | 12.9 | 17.2 | 15.8 | 16.7 | 17.0 | 15.9 | 16.7 | 18.1 | 15.2 | 17.9 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | | | | 17.0 | | | | | | |
| .86 | .73 | .83 | 1.39 | .83 | .81 | .66 | .94 | .90 | .88 | .91 | .86 | .89 | 1.09 | 1.01 | 1.10 | | | Relative P/E Ratio | | | | 1.15 | | | | | | |
| 5.7% | 5.2% | 4.8% | 4.5% | 5.0% | 5.6% | 5.1% | 4.5% | 4.6% | 4.2% | 3.7% | 3.7% | 3.1% | 3.3% | 3.7% | 3.8% | | | Avg Ann'l Div'd Yield | | | | 3.6% | | | | | | |
| CAPITAL STRUCTURE as of 12/31/10 | | | | | | 650.3 | 641.4 | 611.3 | 707.6 | 910.5 | 1013.2 | 1033.2 | 1037.9 | 1012.7 | 812.1 | 820 | 850 | Revenues (\$mill) | | | | 950 | | | | | | |
| Total Debt \$859.1 mill. Due in 5 Yrs \$260 mill. | | | | | | 50.2 | 43.8 | 46.0 | 50.6 | 58.1 | 65.2 | 74.5 | 68.5 | 75.1 | 72.7 | 75.0 | 78.0 | Net Profit (\$mill) | | | | 86.0 | | | | | | |
| LT Debt \$591.7 mill. LT Interest \$41.0 mill. | | | | | | 35.4% | 34.9% | 33.7% | 34.4% | 36.0% | 36.3% | 37.2% | 36.9% | 38.3% | 31.4% | 38.0% | 38.0% | Income Tax Rate | | | | 38.0% | | | | | | |
| (Total interest coverage: 7.0x) | | | | | | 7.7% | 6.8% | 7.5% | 7.1% | 6.4% | 6.4% | 7.2% | 6.6% | 7.4% | 8.9% | 9.5% | 9.5% | Net Profit Margin | | | | 9.0% | | | | | | |
| Pension Assets-12/10 \$219 mill. | | | | | | 43.0% | 47.6% | 49.7% | 46.0% | 47.0% | 46.3% | 46.3% | 44.9% | 47.7% | 46.5% | 43% | 41% | Long-Term Debt Ratio | | | | 34% | | | | | | |
| Pfd Stock None | | | | | | 53.2% | 51.5% | 50.3% | 54.0% | 53.0% | 53.7% | 53.7% | 55.1% | 52.3% | 53.5% | 57% | 59% | Common Equity Ratio | | | | 66% | | | | | | |
| Oblig. \$337.3 mill. | | | | | | 880.5 | 937.3 | 1006.6 | 1052.5 | 1108.4 | 1116.5 | 1106.8 | 1140.4 | 1261.8 | 1294.8 | 1270 | 1270 | Total Capital (\$mill) | | | | 1285 | | | | | | |
| Common Stock 26,668,712 shares | | | | | | 965.0 | 995.6 | 1205.9 | 1318.4 | 1373.4 | 1425.1 | 1495.9 | 1549.1 | 1670.1 | 1854.2 | 2005 | 2165 | Net Plant (\$mill) | | | | 2495 | | | | | | |
| MARKET CAP \$1.2 billion (Mid Cap) | | | | | | 6.9% | 5.9% | 5.7% | 5.9% | 6.5% | 7.1% | 8.5% | 7.7% | 7.3% | 5.6% | 6.0% | 6.0% | Return on Total Cap'l | | | | 6.5% | | | | | | |
| | | | | | | 10.0% | 8.9% | 9.1% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | 11.4% | 10.5% | 10.5% | 10.5% | Return on Shr. Equity | | | | 10.0% | | | | | | |
| | | | | | | 10.2% | 8.5% | 9.0% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | 11.4% | 10.5% | 10.5% | 10.5% | Return on Com Equity | | | | 10.0% | | | | | | |
| | | | | | | 3.5% | 1.9% | 2.6% | 2.7% | 3.7% | 4.5% | 6.0% | 4.5% | 5.0% | 4.0% | 4.0% | 4.0% | Retained to Com Eq | | | | 4.0% | | | | | | |
| | | | | | | 67% | 79% | 72% | 69% | 63% | 59% | 52% | 59% | 56% | 61% | 62% | 61% | All Div'ds to Net Prof | | | | 59% | | | | | | |
| CURRENT POSITION (\$MILL.) | | | | | | 2008 | 2009 | 12/31/10 | | | | | | | | | | | | | | | | | | | | |
| Cash Assets | | | | | | 6.9 | 8.4 | 3.5 | | | | | | | | | | | | | | | | | | | | |
| Other | | | | | | 474.1 | 319.8 | 326.8 | | | | | | | | | | | | | | | | | | | | |
| Current Assets | | | | | | 481.0 | 328.2 | 330.3 | | | | | | | | | | | | | | | | | | | | |
| Accts Payable | | | | | | 94.4 | 123.7 | 93.2 | | | | | | | | | | | | | | | | | | | | |
| Debt Due | | | | | | 248.0 | 137.0 | 267.4 | | | | | | | | | | | | | | | | | | | | |
| Other | | | | | | 208.9 | 131.9 | 107.6 | | | | | | | | | | | | | | | | | | | | |
| Current Liab. | | | | | | 551.3 | 392.6 | 468.2 | | | | | | | | | | | | | | | | | | | | |
| Fx. Chg. Cov. | | | | | | 408% | 395% | 495% | | | | | | | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | | | Past 10 Yrs. | Past 5 Yrs. | Past Est'd '08-'10 | | | | | | | | | | | | | | | | | | | | |
| of change (per sh) | | | | | | 10 Yrs. | 5 Yrs. | to '14-'16 | | | | | | | | | | | | | | | | | | | | |
| Revenues | | | | | | 8.5% | 9.5% | -2.0% | | | | | | | | | | | | | | | | | | | | |
| "Cash Flow" | | | | | | 4.0% | 7.0% | 2.0% | | | | | | | | | | | | | | | | | | | | |
| Earnings | | | | | | 6.0% | 9.5% | 3.0% | | | | | | | | | | | | | | | | | | | | |
| Dividends | | | | | | 2.0% | 3.5% | 4.0% | | | | | | | | | | | | | | | | | | | | |
| Book Value | | | | | | 3.5% | 4.0% | 4.0% | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | QUARTERLY REVENUES (\$ mill.) | | | | Full Year | | | | | | | | | | | | | | | | | | | | | | | |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | 387.7 | 191.3 | 109.7 | 349.2 | 1037.9 | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | 437.4 | 149.1 | 116.9 | 309.3 | 1012.7 | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | 286.5 | 162.4 | 95.1 | 268.1 | 812.1 | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | 320 | 165 | 100 | 235 | 820 | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | 325 | 175 | 110 | 240 | 850 | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | EARNINGS PER SHARE ^A | | | | Full Year | | | | | | | | | | | | | | | | | | | | | | | |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | 1.62 | .08 | d.38 | 1.25 | 2.57 | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | 1.78 | .12 | d.25 | 1.18 | 2.83 | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | 1.64 | .26 | d.28 | 1.11 | 2.73 | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | 1.75 | .10 | d.35 | 1.30 | 2.80 | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | 1.80 | .20 | d.40 | 1.30 | 2.90 | | | | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | QUARTERLY DIVIDENDS PAID ^B | | | | Full Year | | | | | | | | | | | | | | | | | | | | | | | |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | | | | | | | | | | | | | | | | | | | | | | | | |
| 2007 | .355 | .355 | .355 | .375 | 1.44 | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | .375 | .375 | .375 | .395 | 1.52 | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | .395 | .395 | .395 | .415 | 1.60 | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | .415 | .415 | .415 | .435 | 1.68 | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | .435 | | | | | | | | | | | | | | | | | | | | | | | | | | | |

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 668,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system.

Northwest Natural Gas is slated to perform well in 2011. Improving customer growth levels and various new projects should result in a bottom-line boost. **Customer growth continues to gain momentum, which ought to fuel revenue advances this year.** We expect the modest increases experienced over the past few quarters to continue, as the economy stabilizes. Growth should pick up considerably in 2012, and remain elevated through the 2014-2016 period. **The company is focusing on infrastructure to boost the top and bottom lines.** The Gill Ranch project, a California-based storage facility, is likely to add to earnings in 2011. Northwest has already signed several multiple-year contracts for Gill Ranch, and expects the base to continue growing throughout the year. Finally, management has indicated that the company will begin a second phase of expansion at the facility, which should be operational next year. This, in turn, ought to provide a boost to earnings by 2014-2016. Another major expansion in the works is the Mist Storage facility; full capacity should be reached late next year. Lastly,

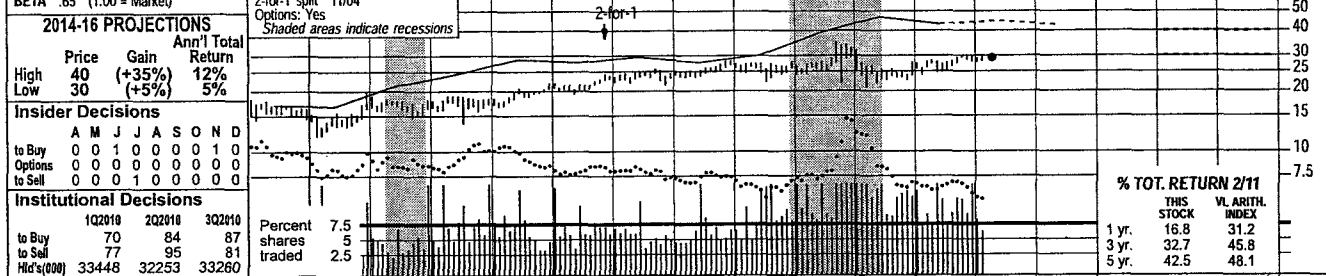
owns local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/10 proxy). CEO: Gregg S. Kantor, Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

hope has finally dawned for the Palomar project. Williams Northwest Pipeline was brought in to join the venture, which greatly increases the chance of a successful completion. The company is currently signing up shippers, as the Palomar Pipeline is likely to begin operations in late 2014. Investors should note that as a result of previous problems on the project, the company's stake has been reduced from 50% to 33%, limiting future benefits. **Rate cases are likely to play a part in earnings growth.** It is quite likely that Northwest will choose to file for a rate increase in Oregon in the third quarter. The state regulatory body is quite sympathetic, and it has been eight years since the last increase. This raises the likelihood of a favorable ruling. Management has indicated a rate case is in the works in Washington, as well, with a decision expected late 2011 or early 2012. No other details are known. **There are better options in the industry at this time.** This neutrally ranked stock has limited long-term appreciation potential, and its dividend yield is only marginally above the industry average.

Sahana Zutshi
March 11, 2011

PIEDMONT NAT'L GAS NYSE-PNY

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| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------------------------|-------|-----------------------------------|-------|
| 8.76 | 11.59 | 12.84 | 12.45 | 10.97 | 13.01 | 17.06 | 12.57 | 18.14 | 19.95 | 22.96 | 25.80 | 23.37 | 28.52 | 22.36 | 21.48 | 22.40 | 23.25 | Revenues per sh ^A | 26.15 |
| 1.25 | 1.49 | 1.62 | 1.72 | 1.70 | 1.77 | 1.81 | 1.87 | 2.04 | 2.31 | 2.43 | 2.51 | 2.64 | 2.77 | 3.01 | 2.91 | 3.00 | 3.15 | "Cash Flow" per sh | 3.45 |
| .73 | .84 | .93 | .98 | .93 | 1.01 | 1.01 | .95 | 1.11 | 1.27 | 1.32 | 1.28 | 1.40 | 1.49 | 1.67 | 1.55 | 1.60 | 1.70 | Earnings per sh ^{AB} | 1.90 |
| .54 | .57 | .61 | .64 | .68 | .72 | .76 | .80 | .82 | .85 | .91 | .95 | .99 | 1.03 | 1.07 | 1.11 | 1.15 | 1.19 | Div'ds Decl'd per sh ^C | 1.31 |
| 1.72 | 1.64 | 1.52 | 1.48 | 1.58 | 1.65 | 1.29 | 1.21 | 1.16 | 1.85 | 2.50 | 2.74 | 1.85 | 2.47 | 1.76 | 2.75 | 4.40 | 2.80 | Cap'l Spending per sh | 2.95 |
| 6.16 | 6.53 | 6.95 | 7.45 | 7.86 | 8.26 | 8.63 | 8.91 | 9.36 | 11.15 | 11.53 | 11.83 | 11.99 | 12.11 | 12.67 | 13.35 | 13.60 | 14.15 | Book Value per sh ^D | 14.90 |
| 57.67 | 59.10 | 60.39 | 61.48 | 62.59 | 63.83 | 64.93 | 66.18 | 67.31 | 76.67 | 76.70 | 74.61 | 73.23 | 73.26 | 73.27 | 72.28 | 71.50 | 71.00 | Common Shs Outst'g ^E | 69.00 |
| 13.8 | 13.9 | 13.6 | 16.3 | 17.7 | 14.3 | 16.7 | 18.4 | 16.7 | 16.6 | 17.9 | 19.2 | 18.7 | 18.2 | 15.4 | 17.1 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 18.0 |
| .92 | .87 | .78 | .85 | 1.01 | .93 | .86 | 1.01 | .95 | .88 | .95 | 1.04 | .99 | 1.10 | 1.03 | 1.08 | | | Relative P/E Ratio | 1.20 |
| 5.4% | 4.9% | 4.8% | 4.0% | 4.1% | 5.0% | 4.5% | 4.6% | 4.4% | 4.1% | 3.8% | 3.9% | 3.8% | 3.8% | 4.1% | 4.2% | | | Avg Ann'l Div'd Yield | 3.7% |

| | | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|--------------------------------|-------|
| CAPITAL STRUCTURE as of 10/31/10 | 1107.9 | 832.0 | 1220.8 | 1529.7 | 1761.1 | 1924.6 | 1711.3 | 2089.1 | 1638.1 | 1552.3 | 1600 | 1650 | Revenues (\$mill) ^A | 1805 |
| Total Debt \$973.9 mill. Due in 5 Yrs \$160.0 mill. | 65.5 | 62.2 | 74.4 | 95.2 | 101.3 | 97.2 | 104.4 | 110.0 | 122.8 | 111.8 | 115 | 120 | Net Profit (\$mill) | 130 |
| LT Debt \$671.9 mill. LT Interest \$50.2 mill. | 34.6% | 33.1% | 34.8% | 35.1% | 33.7% | 34.2% | 33.0% | 36.3% | 28.5% | 23.4% | 30.0% | 30.0% | Income Tax Rate | 30.0% |
| (LT interest earned: 4.1x; total interest coverage: 3.5x) | 5.9% | 7.5% | 6.1% | 6.2% | 5.8% | 5.0% | 6.1% | 5.3% | 7.5% | 7.2% | 7.2% | 7.3% | Net Profit Margin | 7.3% |
| Pension Assets-10/10 \$228.3 mill. Oblig. \$211.0 mill. | 47.6% | 43.9% | 42.2% | 43.6% | 41.4% | 48.3% | 48.4% | 47.2% | 44.1% | 41.0% | 42.0% | 41.0% | Long-Term Debt Ratio | 40.5% |
| | 52.4% | 56.1% | 57.8% | 56.4% | 58.6% | 51.7% | 51.6% | 52.8% | 55.9% | 59.0% | 58.0% | 59.0% | Common Equity Ratio | 59.5% |
| | 1069.4 | 1051.6 | 1090.2 | 1514.9 | 1509.2 | 1707.9 | 1703.3 | 1681.5 | 1660.5 | 1636.9 | 1675 | 1700 | Total Capital (\$mill) | 1725 |
| | 1114.7 | 1158.5 | 1812.3 | 1849.8 | 1939.1 | 2075.3 | 2141.5 | 2240.8 | 2304.4 | 2437.7 | 2450 | 2500 | Net Plant (\$mill) | 2650 |
| | 7.9% | 7.8% | 8.6% | 7.8% | 8.2% | 7.2% | 7.8% | 8.2% | 9.1% | 8.4% | 8.0% | 8.5% | Return on Total Cap'l | 9.0% |
| Pfd Stock None | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | 13.2% | 11.6% | 12.0% | 12.0% | Return on Shr. Equity | 12.5% |
| Common Stock 72,310,563 shs. | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | 13.2% | 11.6% | 12.0% | 12.0% | Return on Com Equity | 12.5% |
| as of 12/17/10 | 3.0% | 1.7% | 3.1% | 3.7% | 3.6% | 2.8% | 3.5% | 3.9% | 4.8% | 3.3% | 3.5% | 3.5% | Retained to Com Eq | 4.0% |
| MARKET CAP: \$2.1 billion (Mid Cap) | 75% | 83% | 74% | 66% | 68% | 74% | 70% | 69% | 64% | 72% | 72% | 70% | All Div's to Net Prof | 68% |

| CURRENT POSITION | | | | | 2008 | 2009 | 10/31/10 | | | | | | | | | | |
|------------------|--|--|--|--|-----------|-------|----------|--|--|--|--|--|--|--|--|--|--|
| | | | | | (\$MILL.) | | | | | | | | | | | | |
| Cash Assets | | | | | 7.0 | 7.6 | 5.6 | | | | | | | | | | |
| Other | | | | | 593.8 | 505.6 | 322.2 | | | | | | | | | | |
| Current Assets | | | | | 600.8 | 513.2 | 327.8 | | | | | | | | | | |
| Accts Payable | | | | | 132.3 | 115.4 | 115.7 | | | | | | | | | | |
| Debt Due | | | | | 436.5 | 366.0 | 302.0 | | | | | | | | | | |
| Other | | | | | 112.7 | 118.8 | 80.9 | | | | | | | | | | |
| Current Liab. | | | | | 681.5 | 600.2 | 498.6 | | | | | | | | | | |
| Fix. Chg. Cov. | | | | | 341% | 316% | 316% | | | | | | | | | | |

| ANNUAL RATES | | | | | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 | | | | | | | | | | |
|--------------|--|--|--|--|--------------------|-------------|--------------------------|--|--|--|--|--|--|--|--|--|--|
| | | | | | of change (per sh) | | | | | | | | | | | | |
| Revenues | | | | | 7.0% | 3.5% | 1.5% | | | | | | | | | | |
| "Cash Flow" | | | | | 5.5% | 5.0% | 3.0% | | | | | | | | | | |
| Earnings | | | | | 5.0% | 5.0% | 3.5% | | | | | | | | | | |
| Dividends | | | | | 4.5% | 4.5% | 3.5% | | | | | | | | | | |
| Book Value | | | | | 5.0% | 3.5% | 3.0% | | | | | | | | | | |

| Fiscal Year Ends | | | | | QUARTERLY REVENUES (\$ mill.) ^A | | | | Full Fiscal Year | | | | | | | | |
|------------------|--|--|--|--|--|--------|--------|--------|------------------|--|--|--|--|--|--|--|--|
| | | | | | Jan.31 | Apr.30 | Jul.31 | Oct.31 | | | | | | | | | |
| 2008 | | | | | 788.5 | 634.2 | 354.7 | 311.7 | 2089.1 | | | | | | | | |
| 2009 | | | | | 779.6 | 455.4 | 180.3 | 222.8 | 1638.1 | | | | | | | | |
| 2010 | | | | | 673.7 | 472.9 | 211.6 | 194.1 | 1552.3 | | | | | | | | |
| 2011 | | | | | 690 | 485 | 220 | 205 | 1600 | | | | | | | | |
| 2012 | | | | | 705 | 495 | 235 | 215 | 1650 | | | | | | | | |

| Fiscal Year Ends | | | | | EARNINGS PER SHARE |
|------------------|--|--|--|--|--------------------------------|
|------------------|--|--|--|--|--------------------------------|

SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **54.79** P/E RATIO **19.1** (Trailing: 20.3 Median: 14.0) RELATIVE P/E RATIO **1.17** DIV'D YLD **2.7%** VALUE LINE

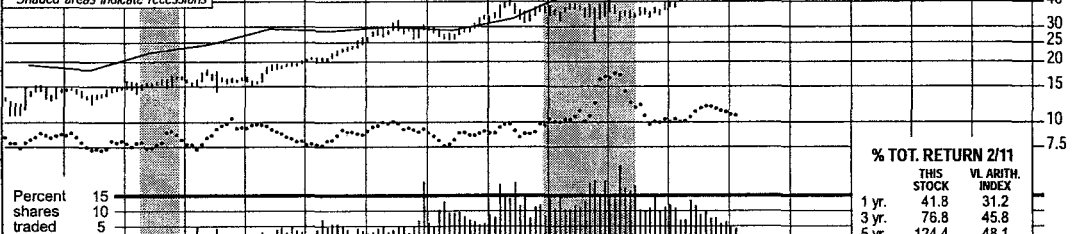
TIMELINESS 3 Lowered 10/15/10
SAFETY 2 Lowered 1/4/91
TECHNICAL 4 Lowered 2/25/11
BETA .65 (1.00 = Market)

LEGENDS
 1.25 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 2-for-1 split 7/05
 Options: Yes
 Shaded areas indicate recessions

2014-16 PROJECTIONS
 Price 65 Gain (20%) Ann'l Total Return 7%
 High 65 Low 50

Insider Decisions
 A M J J A S O N D
 to Buy 0 0 0 0 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0 0 0 0
 to Sell 0 0 0 0 2 0 0 0 0 0 0 0

Institutional Decisions
 1Q2010 2Q2010 3Q2010
 to Buy 60 57 60
 to Sell 69 69 50
 Hld's (000) 17455 17649 18334



| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Revenues per sh | 39.70 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------------|-------|
| 16.50 | 16.52 | 16.18 | 20.89 | 17.60 | 22.43 | 35.30 | 20.69 | 26.34 | 29.51 | 31.78 | 31.76 | 32.30 | 32.36 | 28.37 | 30.97 | 31.60 | 33.15 | "Cash Flow" per sh | 6.20 |
| 1.65 | 1.54 | 1.60 | 1.44 | 1.84 | 1.95 | 1.90 | 2.12 | 2.24 | 2.44 | 2.51 | 3.51 | 3.20 | 3.48 | 3.72 | 4.21 | 4.50 | 5.00 | Earnings per sh | 4.10 |
| .83 | .85 | .86 | .64 | 1.01 | 1.08 | 1.15 | 1.22 | 1.37 | 1.58 | 1.71 | 2.46 | 2.09 | 2.27 | 2.38 | 2.70 | 2.95 | 3.25 | Div'ds Decl'd per sh | 2.00 |
| .72 | .72 | .72 | .72 | .72 | .73 | .74 | .75 | .78 | .82 | .86 | .92 | 1.01 | 1.11 | 1.22 | 1.36 | 1.48 | 1.60 | Cap'l Spending per sh | 7.35 |
| 2.08 | 2.01 | 2.30 | 3.06 | 2.19 | 2.21 | 2.82 | 3.47 | 2.36 | 2.67 | 3.21 | 2.51 | 1.88 | 2.08 | 3.67 | 5.59 | 5.65 | 5.95 | Book Value per sh | 23.55 |
| 7.34 | 8.03 | 6.43 | 6.23 | 6.74 | 7.25 | 7.81 | 9.67 | 11.26 | 12.41 | 13.50 | 15.11 | 16.25 | 17.33 | 18.24 | 19.08 | 19.70 | 20.00 | Common Shs Outst'g | 34.00 |
| 21.44 | 21.51 | 21.54 | 21.56 | 22.30 | 23.00 | 23.72 | 24.41 | 26.46 | 27.76 | 28.98 | 29.33 | 29.61 | 29.73 | 29.80 | 29.87 | 31.00 | 32.00 | Avg Ann'l P/E Ratio | 14.0 |
| 12.2 | 13.3 | 13.8 | 21.2 | 13.3 | 13.0 | 13.6 | 13.5 | 13.3 | 14.1 | 16.6 | 11.9 | 17.2 | 15.9 | 15.0 | 16.8 | 16.8 | 16.8 | Relative P/E Ratio | .95 |
| .82 | .83 | .80 | 1.10 | .76 | .85 | .70 | .74 | .76 | .74 | .88 | .64 | .91 | .96 | 1.00 | 1.06 | 1.06 | 1.06 | Avg Ann'l Div'd Yield | 3.5% |
| 7.2% | 6.4% | 6.1% | 5.3% | 5.4% | 5.2% | 4.7% | 4.6% | 4.3% | 3.7% | 3.0% | 3.2% | 2.8% | 3.1% | 3.4% | 3.0% | 3.0% | 3.0% | | |

CAPITAL STRUCTURE as of 12/31/10
 Total Debt \$702.1 mill. Due in 5 Yrs \$427.7 mill.
 LT Debt \$340.0 mill. LT Interest \$22.0 mill.
 (Total interest coverage: 3.1x)

Pension Assets-12/10 \$120.6 mill.
Pfd Stock None
Common Stock 29,883,823 common shs. as of 2/21/11

MARKET CAP: \$1.6 billion (Mid Cap)

| CURRENT POSITION | 2008 | 2009 | 12/31/10 |
|------------------|-------|-------|----------|
| Cash Assets | 5.8 | 3.8 | 2.4 |
| Other | 429.3 | 364.6 | 421.4 |
| Current Assets | 435.1 | 368.4 | 423.8 |
| Accts Payable | 120.2 | 123.9 | 165.2 |
| Debt Due | 237.6 | 231.7 | 362.1 |
| Other | 142.1 | 123.2 | 113.2 |
| Current Liab. | 499.9 | 478.8 | 640.5 |
| Fix. Chg. Cov. | 598% | 585% | 532% |

| ANNUAL RATES | Past 10 Yrs | Past 5 Yrs | Est'd '08-'10 | Est'd '10-'16 |
|--------------|-------------|------------|---------------|---------------|
| Revenues | 5.5% | 4.0% | 4.5% | 4.5% |
| "Cash Flow" | 8.0% | 9.0% | 8.5% | 8.5% |
| Earnings | 10.5% | 10.0% | 9.0% | 9.0% |
| Dividends | 4.5% | 7.5% | 8.5% | 8.5% |
| Book Value | 10.5% | 9.0% | 4.5% | 4.5% |

| Book Value | 10.5% | 9.0% | 4.5% | | |
|------------|-------------------------------|--------|--------|--------|-----------|
| Cal-endar | QUARTERLY REVENUES (\$ mill.) | | | | Full Year |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | |
| 2008 | 348.1 | 135.8 | 210.4 | 267.7 | 962.0 |
| 2009 | 362.2 | 134.5 | 127.1 | 221.6 | 845.4 |
| 2010 | 329.3 | 151.6 | 160.7 | 283.5 | 925.1 |
| 2011 | 370 | 160 | 165 | 285 | 980 |

| | | | | | |
|-----------|---------------------------------|--------|--------|--------|-----------|
| 2012 | 400 | 175 | 180 | 305 | 1060 |
| Cal-endar | EARNINGS PER SHARE ^A | | | | Full Year |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | |
| 2008 | 1.32 | .26 | .04 | .67 | 2.27 |
| 2009 | 1.46 | .15 | d.06 | .83 | 2.38 |
| 2010 | 1.49 | .24 | .10 | .87 | 2.70 |
| 2011 | 1.55 | .30 | .15 | .95 | 2.95 |
| 2012 | 1.65 | .35 | .20 | 1.05 | 3.25 |

| Cal-endar | QUARTERLY DIVIDENDS PAID \$ | | | | Full Year |
|-----------|-----------------------------|--------|--------|--------|-----------|
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | |
| 2007 | -- | .245 | .245 | .515 | 1.01 |
| 2008 | -- | .270 | .270 | .568 | 1.11 |
| 2009 | -- | .298 | .298 | .628 | 1.22 |
| 2010 | -- | .330 | .330 | .695 | 1.36 |
| 2011 | -- | | | | |

Shares of South Jersey Industries have advanced nicely over the past 12 months, as the company has reported favorable bottom-line comparisons in recent quarters. Solid growth from the utility business and the retail energy unit more than offset weakness in the wholesale energy segment. Looking forward, **Healthy results will probably continue at the utility operations.** South Jersey Gas should continue to benefit from modest customer growth, despite softness in the housing construction market. Natural gas remains the fuel of choice within the utility's service territory. Moreover, SJG continues to benefit from customer interest in converting from other fuel sources to natural gas. In addition, rate relief should serve to offset growth in operating expenses. The utility recently filed a proposal with the New Jersey Board of Public Utilities for another capital investment recovery tracker. Discussions with the regulatory board on this matter are ongoing. If granted, this would allow South Jersey Gas to recover costs associated with capital improvements.

We remain optimistic about the com-

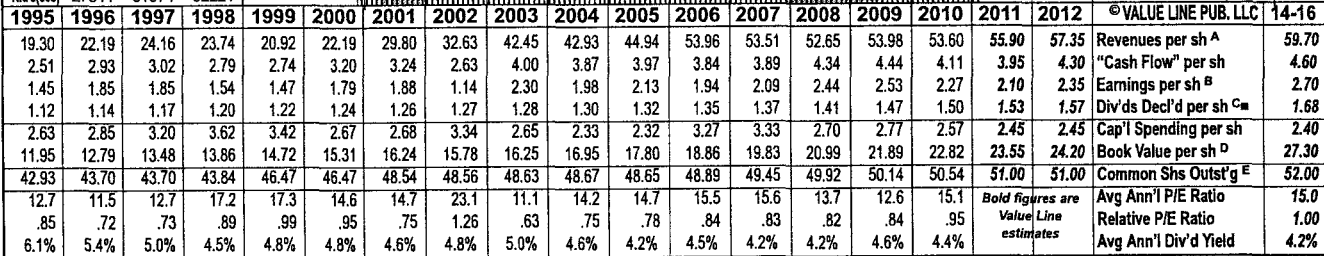
pany's retail energy operations, which should continue to benefit from demand for renewable projects. That said, the upstream wholesale energy business may continue to experience thin storage margins. Nevertheless, efforts by this unit to expand marketing activities in the Marcellus Shale should provide the company with competitively priced gas for its asset management business. Overall, we anticipate a nice advance in revenues and share earnings for South Jersey Industries for full-year 2011. Growth will probably continue in 2012.

These shares are ranked to track the broader market for the coming six to 12 months. Looking farther out, we anticipate steady growth in revenues and share earnings for the company over the pull to 2014-2016. The stock earns favorable marks for Price Stability and Earnings Predictability. However, this seems to be partly reflected in the current quotation, and total return potential for the coming years appears limited. Thus, investors can probably find more-attractive choices elsewhere.

Michael Napoli, CFA **March 11, 2011**

[illegible]

| Price Range | |
|-------------|------|
| 2015 | 2016 |
| | 80 |
| | 60 |
| | 50 |



| | | | | | | | |
|---------------------|----------------|---------------|----------------------|---|---|---|--|
| (SMILL.) | | | | BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas | | vides energy related products in the D.C. metro area; Wash. Gas | |
| Cash Assets | 7.9 | 8.9 | 16.6 | Light, a natural gas distributor in Washington, D.C. and adjacent | Energy Sys. designs/installs comm'l heating, ventilating, and air | cond. systems. Black Rock Inc. owns 9.2% of common stock; | |
| Other | 675.6 | 708.4 | 1008.4 | areas of VA and MD to resident'l and comm'l users (1,073,722 | meters). Hampshire Gas, a federally regulated sub., operates an | underground gas-storage facility in WV. Non-regulated subs.: | |
| Current Assets | 683.5 | 717.3 | 1025.0 | Wash. Gas Energy Svcs. sells and delivers natural gas and pro- | | | |
| Accts Payable | 213.5 | 225.4 | 356.0 | | | | |
| Debt Due | 266.5 | 130.5 | 150.3 | | | | |
| Other | 154.6 | 188.2 | 281.0 | | | | |
| Current Liab. | 634.6 | 544.1 | 787.3 | | | | |
| Fix. Chg. Cov. | 533% | 535% | 535% | | | | |
| ANNUAL RATES | Past | Past | Est'd '08-'10 | WGL Holdings is off to a decent start | | | |
| of change (per sh) | 10 Yrs. | 5 Yrs. | to '14-'16 | this year. Its top line benefited from higher | | | |
| Revenues | 9.0% | 4.0% | 2.0% | volumes at the Utility and Non-Utility | | | |
| "Cash Flow" | 4.0% | 1.5% | 1.0% | operating segments, reflecting growth in | | | |
| Earnings | 4.0% | 2.5% | 1.5% | active customer accounts. Indeed, revenues | | | |
| Dividends | 2.0% | 2.5% | 2.5% | advanced about 9.5% over this time | | | |
| EPS (adj.) | 4.0% | 4.0% | 4.0% | Some alternative energy investments | | | |
| | | | | should contribute nicely down the | | | |
| | | | | road. WGL has two solar projects planned | | | |
| | | | | for this year. The first is located at the | | | |
| | | | | University of Maryland and will produce | | | |

| | | | | | | | |
|------------------|---------------------------------------|--------|--------|--------|------------------|---|--|
| 2012 | 815 | 1100 | 500 | 510 | 2925 | <p>We look for a 7.5% earnings decline this year. The downturn will likely stem from lower realized margins on gas sales. Meanwhile, costs have been creeping higher and impacting profits in Virginia. The company does have a proposed rate case in the works for that region. But even if this goes through as planned, the higher rates will not kick in until October of this year. The benefits of this rate case will no doubt be a nice contributor to next year's bottom line. And when this is combined with prospective gains in natural gas demand, and an overall firming up in the economy, we have introduced our 2012 earnings es-</p> | <p>tures will be owned and operated by Washington Gas Energy Services, and the energy produced will be sold to the on-site customers under long-term contracts. These neutrally ranked shares have appeal as an income vehicle. And, with the recent market appearing to be a bit overbought, these high-quality shares provide a safe haven in the event of a correction. This is evident in the stock's high Safety rank (1), top mark for Price Stability (100), and conservative Beta (.65). However, capital appreciation potential for the pull to 2014-2016 is subpar.</p> <p><i>Bryan J. Fong</i> <i>March 11, 2011</i></p> |
| Fiscal Year Ends | EARNINGS PER SHARE ^{A B} | | | | Full Fiscal Year | | |
| | Dec.31 | Mar.31 | Jun.30 | Sep.30 | | | |
| 2008 | .96 | 1.66 | .06 | d.24 | 2.44 | | |
| 2009 | 1.03 | 1.65 | .11 | d.25 | 2.53 | | |
| 2010 | 1.01 | 1.64 | d.07 | d.29 | 2.27 | | |
| 2011 | 1.02 | 1.55 | d.10 | d.37 | 2.10 | | |
| 2012 | 1.08 | 1.61 | d.04 | d.30 | 2.35 | | |
| Cal-endar | QUARTERLY DIVIDENDS PAID ^C | | | | Full Year | | |
| | Mar.31 | Jun.30 | Sep.30 | Dec.31 | | | |
| 2007 | .34 | .34 | .34 | .34 | 1.36 | | |
| 2008 | .34 | .36 | .36 | .36 | 1.42 | | |
| 2009 | .36 | .37 | .37 | .37 | 1.47 | | |
| 2010 | .37 | .378 | .378 | .378 | 1.50 | | |
| 2011 | .378 | | | | | | |

| | | | |
|--|--|---|--|
| <p>(A) Fiscal years end Sept. 30th.</p> <p>(B) Based on diluted shares. Excludes non-recurring losses: '01, (13¢); '02, (34¢); '07, (4¢); '08, (14¢) discontinued operations: '06, (15¢). Qlty eggs. may not sum to total, due to change in shares outstanding. Next earnings report due late April. (C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.</p> | | <p>Company's Financial Strength A</p> <p>Stock's Price Stability 100</p> <p>Price Growth Persistence 95</p> <p>Earnings Predictability 45</p> | |
| <p>(D) Includes deferred charges and intangibles. '10: \$580.4 million, \$11.48/sh.</p> <p>(E) In millions, adjusted for stock split.</p> | | <p>To subscribe call 1-800-833-0046</p> | |
| <p>© 2011, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. The PUBLISHER is NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.</p> | | | |

ATTACHMENT C

**AMERICAN STS WTR CO (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|---------------|----------------|--------------------|-----------------|
| AWR | 33.90 | ▲ 0.97 | (2.95%) | Vol. 85,409 | 11:30 ET |
|------------|--------------|---------------|----------------|--------------------|-----------------|

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

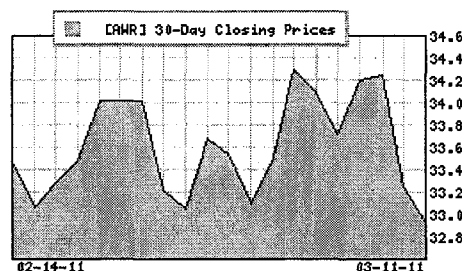
AMER STATES WTR
 630 East Foothill Boulevard
 San Dimas, CA 91773-1212
 Phone: 909 394-3600
 Fax: 909 394-0711
 Web: www.gswater.com
 Email: investorinfo@aswater.com

| | |
|----------|------------|
| Industry | UTIL-WATER |
| Sector: | SPLY |
| | Utilities |

| | |
|-----------------------|------------|
| Fiscal Year End | December |
| Last Reported Quarter | 12/31/10 |
| Next EPS Date | 05/05/2011 |

Price and Volume Information

| | |
|------------------------|-----------|
| Zacks Rank | |
| Yesterday's Close | 32.93 |
| 52 Week High | 39.61 |
| 52 Week Low | 31.24 |
| Beta | 0.39 |
| 20 Day Moving Average | 82,652.45 |
| Target Price Consensus | 43.67 |

**% Price Change**

| | |
|---------|-------|
| 4 Week | -0.87 |
| 12 Week | -6.77 |
| YTD | -4.47 |

% Price Change Relative to S&P 500

| | |
|---------|--------|
| 4 Week | 1.02 |
| 12 Week | -11.08 |
| YTD | -7.88 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 18.62 |
| Market Capitalization (millions) | 613.16 |
| Short Ratio | 5.33 |
| Last Split Date | 06/10/2002 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 3.16% |
| Annual Dividend | \$1.04 |
| Payout Ratio | 0.54 |
| Change in Payout Ratio | -0.08 |
| Last Dividend Payout / Amount | 02/10/2011 / \$0.26 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.47 |
| Current Year EPS Consensus Estimate | 2.14 |
| Estimated Long-Term EPS Growth Rate | 7.50 |
| Next EPS Report Date | 05/05/2011 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.71 |
| 30 Days Ago | 2.71 |
| 60 Days Ago | 2.71 |
| 90 Days Ago | 2.43 |

Fundamental Ratios

| | | |
|----------------------|----------------------------|------------------------------|
| P/E | EPS Growth | Sales Growth |
| Current FY Estimate: | 15.41 vs. Previous Year | 105.56% vs. Previous Year |
| Trailing 12 Months: | 17.15 vs. Previous Quarter | -40.32% vs. Previous Quarter |
| PEG Ratio | 2.05 | |
| Price Ratios | ROE | ROA |
| Price/Book | 1.65 12/31/10 | 9.80 12/31/10 |
| | | 3.11 |

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Cash Flow | 9.61 | 09/30/10 | 8.89 | 09/30/10 | 2.83 |
| Price / Sales | 1.53 | 06/30/10 | 8.54 | 06/30/10 | 2.74 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | 9.01 |
| 09/30/10 | 1.04 | 09/30/10 | 1.03 | 09/30/10 | 8.49 |
| 06/30/10 | 1.11 | 06/30/10 | 1.10 | 06/30/10 | 8.30 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 12.34 | 09/30/10 | 12.34 | 09/30/10 | 20.01 |
| 06/30/10 | 14.16 | 06/30/10 | 14.16 | 06/30/10 | 19.90 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 49.56 | 09/30/10 | 0.81 | 09/30/10 | 44.63 |
| 06/30/10 | 49.32 | 06/30/10 | 0.81 | 06/30/10 | 44.80 |

**CALIFORNIA WTR SVC GROUP (NYSE)****Scottrade**

CWT 35.29 ▲0.16 (0.46%) Vol. 88,151 14:16 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.


General Information

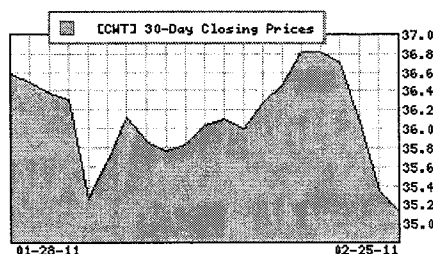
CALIF WATER SVC
 1720 North First Street
 San Jose, CA 95112
 Phone: 408 367-8200
 Fax: 408 437-9185
 Web: www.calwatergroup.com
 Email: klichtenbergl@calwater.com

Industry: UTIL-WATER
 Sector: SPLY
 Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/10
 Next EPS Date: 04/27/2011

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 35.13
 52 Week High: 39.70
 52 Week Low: 33.81
 Beta: 0.31
 20 Day Moving Average: 116,998.35
 Target Price Consensus: 40

**% Price Change**

4 Week: -3.96
 12 Week: -6.04
 YTD: -5.74

% Price Change Relative to S&P 500

4 Week: -7.13
 12 Week: -12.82
 YTD: -10.19

Share Information

Shares Outstanding (millions): 20.83
 Market Capitalization (millions): 731.76
 Short Ratio: 5.93
 Last Split Date: 01/26/1998

Dividend Information

Dividend Yield: 3.50%
 Annual Dividend: \$1.23
 Payout Ratio: 0.66
 Change in Payout Ratio: -0.06
 Last Dividend Payout / Amount: 02/03/2011 / \$0.31

EPS Information

Current Quarter EPS Consensus Estimate: 0.09
 Current Year EPS Consensus Estimate: 2.17
 Estimated Long-Term EPS Growth Rate: 4.00
 Next EPS Report Date: 04/27/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.25
 30 Days Ago: 2.25
 60 Days Ago: 2.25
 90 Days Ago: 2.00

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|-------------------------------|
| Current FY Estimate: 16.18 | vs. Previous Year: -25.81% | vs. Previous Year: -1.37% |
| Trailing 12 Months: 19.41 | vs. Previous Quarter: -76.53% | vs. Previous Quarter: -27.94% |
| PEG Ratio: 4.04 | | |

| Price Ratios | | ROE | | ROA | | |
|--------------------|-------|----------------|--|------------------|----------|-------|
| Price/Book | 1.68 | 12/31/10 | | 8.81 | 12/31/10 | 2.32 |
| Price/Cash Flow | 9.09 | 09/30/10 | | 9.26 | 09/30/10 | 2.48 |
| Price / Sales | 1.59 | 06/30/10 | | 9.16 | 06/30/10 | 2.47 |
| Current Ratio | | Quick Ratio | | Operating Margin | | |
| 12/31/10 | 1.18 | 12/31/10 | | 1.12 | 12/31/10 | 8.18 |
| 09/30/10 | 0.59 | 09/30/10 | | 0.55 | 09/30/10 | 8.50 |
| 06/30/10 | 0.63 | 06/30/10 | | 0.59 | 06/30/10 | 8.45 |
| Net Margin | | Pre-Tax Margin | | Book Value | | |
| 12/31/10 | 13.51 | 12/31/10 | | 13.51 | 12/31/10 | 20.91 |
| 09/30/10 | 12.81 | 09/30/10 | | 12.81 | 09/30/10 | 20.98 |
| 06/30/10 | 12.97 | 06/30/10 | | 12.97 | 06/30/10 | 20.25 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | | |
| 12/31/10 | 31.32 | 12/31/10 | | 1.10 | 12/31/10 | 52.39 |
| 09/30/10 | 32.92 | 09/30/10 | | 0.87 | 09/30/10 | 46.56 |
| 06/30/10 | 32.46 | 06/30/10 | | 0.90 | 06/30/10 | 47.43 |

**AQUA AMERICA INC (NYSE)****Scottrade**
WTR **22.69** **▲ 0.37** **(1.66%)** **Vol. 381,658** **14:20 ET**

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.


General Information

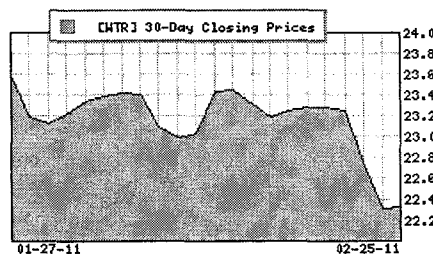
AQUA AMER INC
 762 W Lancaster Avenue
 Bryn Mawr, PA 19010-3489
 Phone: 610 527-8000
 Fax: 610-645-1061
 Web: www.suburbanwater.com
 Email: ir.aquaamerica.com

Industry: **UTIL-WATER**
 Sector: **SPLY**
Utilities

Fiscal Year End: **December**
 Last Reported Quarter: **12/31/10**
 Next EPS Date: **05/05/2011**

Price and Volume Information

Zacks Rank 
 Yesterday's Close: **22.32**
 52 Week High: **23.79**
 52 Week Low: **16.52**
 Beta: **0.22**
 20 Day Moving Average: **690,462.94**
 Target Price Consensus: **23.4**

**% Price Change**

4 Week: **-3.71**
 12 Week: **3.43**
 YTD: **-0.71**

% Price Change Relative to S&P 500

4 Week: **-6.89**
 12 Week: **-4.03**
 YTD: **-5.39**

Share Information

Shares Outstanding (millions): **137.54**
 Market Capitalization (millions): **3,069.89**
 Short Ratio: **16.11**
 Last Split Date: **12/02/2005**

Dividend Information

Dividend Yield: **2.78%**
 Annual Dividend: **\$0.62**
 Payout Ratio: **0.68**
 Change in Payout Ratio: **-0.01**
 Last Dividend Payout / Amount: **02/15/2011 / \$0.16**

EPS Information

Current Quarter EPS Consensus Estimate: **0.18**
 Current Year EPS Consensus Estimate: **0.97**
 Estimated Long-Term EPS Growth Rate: **6.50**
 Next EPS Report Date: **05/05/2011**

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): **2.27**
 30 Days Ago: **2.27**
 60 Days Ago: **2.09**
 90 Days Ago: **2.09**

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Current FY Estimate: 22.97 | vs. Previous Year: 5.00% | vs. Previous Year: 6.80% |
| Trailing 12 Months: 24.53 | vs. Previous Quarter: -34.38% | vs. Previous Quarter: -13.71% |
| PEG Ratio: 3.53 | | |

Price Ratios**ROE****ROA**

| | | | | | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Book | 2.61 | 12/31/10 | 10.88 | 12/31/10 | 3.17 |
| Price/Cash Flow | 12.53 | 09/30/10 | 10.84 | 09/30/10 | 3.18 |
| Price / Sales | 4.23 | 06/30/10 | 10.06 | 06/30/10 | 2.97 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | 17.08 |
| 09/30/10 | 0.72 | 09/30/10 | 0.67 | 09/30/10 | 17.04 |
| 06/30/10 | 0.60 | 06/30/10 | 0.55 | 06/30/10 | 16.21 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/10 | 28.10 | 12/31/10 | 28.10 | 12/31/10 | 8.54 |
| 09/30/10 | 28.01 | 09/30/10 | 28.01 | 09/30/10 | 8.30 |
| 06/30/10 | 26.68 | 06/30/10 | 26.68 | 06/30/10 | 8.25 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 12/31/10 | - | 12/31/10 | 1.30 | 12/31/10 | 56.60 |
| 09/30/10 | 28.01 | 09/30/10 | 1.27 | 09/30/10 | 56.00 |
| 06/30/10 | 27.37 | 06/30/10 | 1.29 | 06/30/10 | 56.40 |

**AGL RESOURCES INC (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|--------------|----------------|---------------------|-----------------|
| AGL | 38.48 | ±0.19 | (0.50%) | Vol. 196,580 | 14:20 ET |
|------------|--------------|--------------|----------------|---------------------|-----------------|

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.


General Information

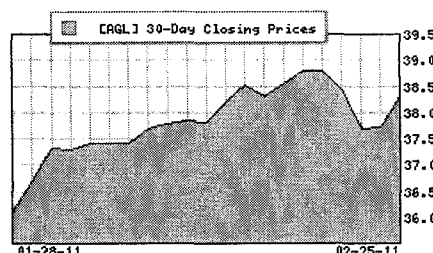
AGL RESOURCES
 Ten Peachtree Place NE
 Atlanta, GA 30309
 Phone: 404 584-4000
 Fax: 404 584-3945
 Web: www.aglresources.com
 Email: scave@aglresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/10
 Next EPS Date: 04/26/2011

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 38.29
 52 Week High: 40.08
 52 Week Low: 34.21
 Beta: 0.44
 20 Day Moving Average: 522,695.75
 Target Price Consensus: 42.2

**% Price Change**

4 Week: 6.10
 12 Week: 2.24
 YTD: 6.81

% Price Change Relative to S&P 500

4 Week: 2.60
 12 Week: -5.13
 YTD: 1.77

Share Information

Shares Outstanding (millions): 78.06
 Market Capitalization (millions): 2,988.88
 Short Ratio: 8.77
 Last Split Date: 12/04/1995

Dividend Information

Dividend Yield: 4.70%
 Annual Dividend: \$1.80
 Payout Ratio: 0.58
 Change in Payout Ratio: -0.01
 Last Dividend Payout / Amount: 02/16/2011 / \$0.45

EPS Information

Current Quarter EPS Consensus Estimate: 1.61
 Current Year EPS Consensus Estimate: 3.15
 Estimated Long-Term EPS Growth Rate: 4.00
 Next EPS Report Date: 04/26/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.13
 30 Days Ago: 2.25
 60 Days Ago: 2.25
 90 Days Ago: 2.33

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|------------------------------|
| Current FY Estimate: 12.16 | vs. Previous Year: -6.52% | vs. Previous Year: 4.23% |
| Trailing 12 Months: 12.55 | vs. Previous Quarter: 196.55% | vs. Previous Quarter: 92.20% |
| PEG Ratio: 3.04 | | |

Price Ratios

Price/Book: 1.63
 Price/Cash Flow: 09/30/10

ROE

12/31/10: 12.98
 09/30/10: 3.40

ROA

12/31/10: 3.40
 09/30/10: 3.40

| | | | | | |
|---------------------------|---------------|-----------------------|----------------|-------------------------|-------|
| | 7.51 | | 13.19 | | 3.50 |
| Price / Sales | 1.26 06/30/10 | | 12.76 06/30/10 | | 3.44 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/10 | 0.89 | 12/31/10 | 0.63 | 12/31/10 | 10.02 |
| 09/30/10 | 0.79 | 09/30/10 | 0.47 | 09/30/10 | 10.27 |
| 06/30/10 | 0.82 | 06/30/10 | 0.52 | 06/30/10 | 10.01 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/10 | 16.43 | 12/31/10 | 16.43 | 12/31/10 | 23.52 |
| 09/30/10 | 17.35 | 09/30/10 | 17.35 | 09/30/10 | 23.28 |
| 06/30/10 | 16.99 | 06/30/10 | 16.99 | 06/30/10 | 23.47 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 12/31/10 | 2.98 | 12/31/10 | 0.91 | 12/31/10 | 47.68 |
| 09/30/10 | 2.87 | 09/30/10 | 0.83 | 09/30/10 | 45.49 |
| 06/30/10 | 2.86 | 06/30/10 | 0.85 | 06/30/10 | 45.95 |

**ATMOS ENERGY CORP (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|--------------|----------------|---------------------|-----------------|
| ATO | 33.89 | ±0.16 | (0.47%) | Vol. 286,554 | 14:22 ET |
|------------|--------------|--------------|----------------|---------------------|-----------------|

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

General Information**ATMOS ENERGY CP**

Three Lincoln Centre 5430 Lbj Freeway

Suite 1800

Dallas, TX 75240

Phone: 972-934-9227

Fax: 972-855-3040

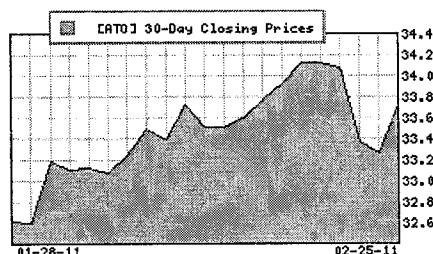
Web: www.atmosenergy.comEmail: InvestorRelations@atmosenergy.com

| | |
|----------|----------------|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|-----------------------|------------|
| Fiscal Year End | September |
| Last Reported Quarter | 12/31/10 |
| Next EPS Date | 05/11/2011 |

Price and Volume Information

| | |
|------------------------|------------|
| Zacks Rank | |
| Yesterday's Close | 33.73 |
| 52 Week High | 34.24 |
| 52 Week Low | 25.86 |
| Beta | 0.51 |
| 20 Day Moving Average | 349,805.09 |
| Target Price Consensus | 32 |

**% Price Change**

| | |
|---------|------|
| 4 Week | 3.40 |
| 12 Week | 6.34 |
| YTD | 8.11 |

% Price Change Relative to S&P 500

| | |
|---------|-------|
| 4 Week | -0.01 |
| 12 Week | -1.33 |
| YTD | 3.01 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 90.42 |
| Market Capitalization (millions) | 3,049.93 |
| Short Ratio | 6.97 |
| Last Split Date | 05/17/1994 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 4.03% |
| Annual Dividend | \$1.36 |
| Payout Ratio | 0.58 |
| Change in Payout Ratio | -0.05 |
| Last Dividend Payout / Amount | 02/23/2011 / \$0.34 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 1.39 |
| Current Year EPS Consensus Estimate | 2.30 |
| Estimated Long-Term EPS Growth Rate | 4.50 |
| Next EPS Report Date | 05/11/2011 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.89 |
| 30 Days Ago | 2.89 |
| 60 Days Ago | 2.89 |
| 90 Days Ago | 2.89 |

Fundamental Ratios

| | | | | | |
|----------------------|-------|----------------------|--------|-----------------------|---------|
| P/E | | EPS Growth | | Sales Growth | |
| Current FY Estimate: | 14.64 | vs. Previous Year | 14.08% | vs. Previous Year | -10.51% |
| Trailing 12 Months: | 14.35 | vs. Previous Quarter | -% | vs. Previous Quarter: | 47.14% |
| PEG Ratio | 3.25 | | | | |

| Price Ratios | | ROE | | ROA | | |
|--------------------|-------|----------------|--|------------------|----------|-------|
| Price/Book | 1.34 | 12/31/10 | | 9.52 | 12/31/10 | 3.17 |
| Price/Cash Flow | 7.15 | 09/30/10 | | 9.23 | 09/30/10 | 3.11 |
| Price / Sales | 0.66 | 06/30/10 | | 8.89 | 06/30/10 | 3.04 |
| Current Ratio | | Quick Ratio | | Operating Margin | | |
| 12/31/10 | 0.86 | 12/31/10 | | 0.63 | 12/31/10 | 4.66 |
| 09/30/10 | 0.75 | 09/30/10 | | 0.48 | 09/30/10 | 4.38 |
| 06/30/10 | 0.87 | 06/30/10 | | 0.61 | 06/30/10 | 4.34 |
| Net Margin | | Pre-Tax Margin | | Book Value | | |
| 12/31/10 | 6.52 | 12/31/10 | | 6.52 | 12/31/10 | 25.16 |
| 09/30/10 | 6.99 | 09/30/10 | | 6.99 | 09/30/10 | 24.16 |
| 06/30/10 | 6.60 | 06/30/10 | | 6.60 | 06/30/10 | 24.84 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | | |
| 12/31/10 | 13.40 | 12/31/10 | | 0.79 | 12/31/10 | 44.27 |
| 09/30/10 | 13.07 | 09/30/10 | | 0.83 | 09/30/10 | 45.38 |
| 06/30/10 | 12.37 | 06/30/10 | | 0.78 | 06/30/10 | 43.89 |



| LACLEDE GROUP INC (NYSE) | | | | | Scottrade |
|--------------------------|-------|--------|----------|-------------|-----------|
| LG | 38.71 | ▼-0.07 | (-0.18%) | Vol. 45,508 | 14:22 ET |

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.


General Information

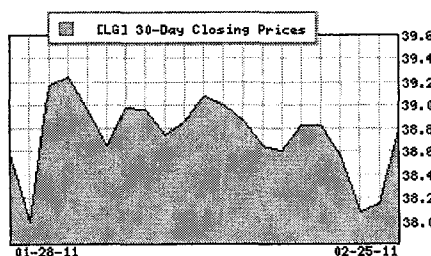
LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: 314-421-1979
Web: www.thelacledegroupp.com
Email: mkullman@lacledegas.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Reported Quarter: 12/31/10
Next EPS Date: 04/22/2011

Price and Volume Information

Zacks Rank 
Yesterday's Close: 38.78
52 Week High: 39.99
52 Week Low: 31.65
Beta: 0.07
20 Day Moving Average: 71,511.95
Target Price Consensus: N/A



| % Price Change | | % Price Change Relative to S&P 500 | |
|----------------|------|------------------------------------|-------|
| 4 Week | 0.52 | 4 Week | -2.80 |
| 12 Week | 7.84 | 12 Week | 0.07 |
| YTD | 6.13 | YTD | 1.13 |

Share Information

Shares Outstanding: 22.38 (millions)
Market Capitalization: 867.93 (millions)
Short Ratio: 7.88
Last Split Date: 03/08/1994

Dividend Information

Dividend Yield: 4.18%
Annual Dividend: \$1.62
Payout Ratio: 0.67
Change in Payout Ratio: 0.06
Last Dividend Payout / Amount: 12/08/2010 / \$0.41

EPS Information

Current Quarter EPS Consensus Estimate: 1.29
Current Year EPS Consensus Estimate: 2.52
Estimated Long-Term EPS Growth Rate: 3.00
Next EPS Report Date: 04/22/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.00
30 Days Ago: 3.00
60 Days Ago: 3.00
90 Days Ago: 3.00

Fundamental Ratios

| P/E | EPS Growth | | Sales Growth | | |
|----------------------|------------|----------------------|--------------|-----------------------|--------|
| Current FY Estimate: | 15.42 | vs. Previous Year | 1.94% | vs. Previous Year | -9.56% |
| Trailing 12 Months: | 16.02 | vs. Previous Quarter | 1,850.00% | vs. Previous Quarter: | 56.39% |
| PEG Ratio | 5.14 | | | | |

| Price Ratios | | ROE | | ROA | | |
|--------------|------|----------|--|------|----------|------|
| Price/Book | 1.58 | 12/31/10 | | 9.84 | 12/31/10 | 2.95 |

| | | | | | |
|---------------------------|-------|-----------------------|------|-------------------------|-------|
| Price/Cash Flow | 9.20 | 09/30/10 | 9.83 | 09/30/10 | 2.91 |
| Price / Sales | 0.51 | 06/30/10 | 9.28 | 06/30/10 | 2.76 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/10 | 1.39 | 12/31/10 | 0.97 | 12/31/10 | 3.18 |
| 09/30/10 | 1.24 | 09/30/10 | 0.84 | 09/30/10 | 3.07 |
| 06/30/10 | 1.35 | 06/30/10 | 1.10 | 06/30/10 | 2.93 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/10 | 4.83 | 12/31/10 | 4.83 | 12/31/10 | 24.51 |
| 09/30/10 | 4.68 | 09/30/10 | 4.68 | 09/30/10 | 24.02 |
| 06/30/10 | 4.38 | 06/30/10 | 4.38 | 06/30/10 | 24.54 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 12/31/10 | 13.41 | 12/31/10 | 0.66 | 12/31/10 | 39.91 |
| 09/30/10 | 14.62 | 09/30/10 | 0.68 | 09/30/10 | 40.48 |
| 06/30/10 | 14.90 | 06/30/10 | 0.67 | 06/30/10 | 39.99 |

**NEW JERSEY RES (NYSE)****Scottrade**
NJR **41.82** ▼ -0.04 (-0.10%) Vol. 64,473 14:23 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.

General Information

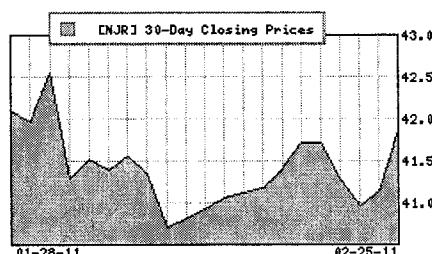
NJ RESOURCES
 1415 Wyckoff Road
 Wall, NJ 07719
 Phone: 732-938-1489
 Fax: 732 938-3154
 Web: www.njresources.com
 Email: investcont@njresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Reported Quarter: 12/31/10
 Next EPS Date: 05/11/2011

Price and Volume Information

Zacks Rank ***P***
 Yesterday's Close: 41.86
 52 Week High: 44.10
 52 Week Low: 34.07
 Beta: 0.20
 20 Day Moving Average: 240,500.50
 Target Price Consensus: 43.83

**% Price Change**

4 Week: -0.55
 12 Week: -2.04
 YTD: -2.90

% Price Change Relative to S&P 500

4 Week: -3.83
 12 Week: -9.10
 YTD: -7.48

Share Information

Shares Outstanding (millions): 41.29
 Market Capitalization (millions): 1,728.32
 Short Ratio: 20.66
 Last Split Date: 03/04/2008

Dividend Information

Dividend Yield: 3.44%
 Annual Dividend: \$1.44
 Payout Ratio: 0.58
 Change in Payout Ratio: 0.04
 Last Dividend Payout / Amount: 12/13/2010 / \$0.36

EPS Information

Current Quarter EPS Consensus Estimate: 1.73
 Current Year EPS Consensus Estimate: 2.60
 Estimated Long-Term EPS Growth Rate: 4.00
 Next EPS Report Date: 05/11/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.50
 30 Days Ago: 2.25
 60 Days Ago: 2.06
 90 Days Ago: 2.06

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|---------------------------------|------------------------------|
| Current FY Estimate: 16.13 | vs. Previous Year: 7.69% | vs. Previous Year: 17.00% |
| Trailing 12 Months: 16.81 | vs. Previous Quarter: 2,433.33% | vs. Previous Quarter: 12.93% |
| PEG Ratio: 4.03 | | |

| Price Ratios | | ROE | | ROA | | |
|--------------------|-------|----------------|--|------------------|----------|-------|
| Price/Book | 2.34 | 12/31/10 | | 13.92 | 12/31/10 | 4.05 |
| Price/Cash Flow | 12.78 | 09/30/10 | | 13.91 | 09/30/10 | 4.14 |
| Price / Sales | 0.63 | 06/30/10 | | 13.54 | 06/30/10 | 4.08 |
| Current Ratio | | Quick Ratio | | Operating Margin | | |
| 12/31/10 | 1.09 | 12/31/10 | | 0.65 | 12/31/10 | 3.77 |
| 09/30/10 | 1.11 | 09/30/10 | | 0.63 | 09/30/10 | 3.86 |
| 06/30/10 | 1.26 | 06/30/10 | | 0.79 | 06/30/10 | 4.04 |
| Net Margin | | Pre-Tax Margin | | Book Value | | |
| 12/31/10 | 4.61 | 12/31/10 | | 4.61 | 12/31/10 | 17.86 |
| 09/30/10 | 6.52 | 09/30/10 | | 6.52 | 09/30/10 | 17.61 |
| 06/30/10 | 5.91 | 06/30/10 | | 5.91 | 06/30/10 | 17.95 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | | |
| 12/31/10 | 8.34 | 12/31/10 | | 0.59 | 12/31/10 | 36.96 |
| 09/30/10 | 8.34 | 09/30/10 | | 0.59 | 09/30/10 | 37.15 |
| 06/30/10 | 7.93 | 06/30/10 | | 0.59 | 06/30/10 | 36.98 |

**NORTHWEST NAT GAS CO (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|---------------|----------------|--------------------|-----------------|
| NWN | 46.90 | ▲ 0.85 | (1.85%) | Vol. 89,973 | 14:23 ET |
|------------|--------------|---------------|----------------|--------------------|-----------------|

NW Natural is principally engaged in the distribution of natural gas. The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

General Information**NORTHWEST NAT G**

220 NW Second Avenue

Portland, OR 97209

Phone: 503 226-4211

Fax: 503 273-4824

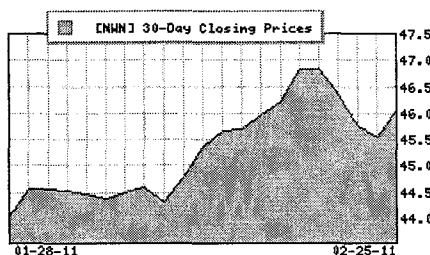
Web: www.nwnatural.comEmail: Bob.Hess@nwnatural.com

| | |
|----------|----------------|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|-----------------------|------------|
| Fiscal Year End | December |
| Last Reported Quarter | 12/31/10 |
| Next EPS Date | 05/11/2011 |

Price and Volume Information

| | |
|------------------------|------------------|
| Zacks Rank | <i>1B</i> |
| Yesterday's Close | 46.05 |
| 52 Week High | 50.86 |
| 52 Week Low | 41.90 |
| Beta | 0.30 |
| 20 Day Moving Average | 111,424.00 |
| Target Price Consensus | 48.33 |

**% Price Change**

| | |
|---------|-------|
| 4 Week | 4.61 |
| 12 Week | -1.98 |
| YTD | -0.90 |

% Price Change Relative to S&P 500

| | |
|---------|-------|
| 4 Week | 1.16 |
| 12 Week | -9.05 |
| YTD | -5.58 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 26.64 |
| Market Capitalization (millions) | 1,226.77 |
| Short Ratio | 16.96 |
| Last Split Date | 09/09/1996 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 3.78% |
| Annual Dividend | \$1.74 |
| Payout Ratio | 0.00 |
| Change in Payout Ratio | 0.00 |
| Last Dividend Payout / Amount | 01/27/2011 / \$0.44 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 1.68 |
| Current Year EPS Consensus Estimate | 2.55 |
| Estimated Long-Term EPS Growth Rate | 4.40 |
| Next EPS Report Date | 05/11/2011 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.25 |
| 30 Days Ago | 2.25 |
| 60 Days Ago | 2.25 |
| 90 Days Ago | 2.25 |

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|-------------------------------|
| Current FY Estimate: 18.06 | vs. Previous Year -12.00% | vs. Previous Year -18.64% |
| Trailing 12 Months: 16.45 | vs. Previous Quarter -207.69% | vs. Previous Quarter: -41.45% |
| PEG Ratio 4.13 | | |

Price Ratios**ROE****ROA**

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Book | 1.81 | 12/31/10 | - | 12/31/10 | - |
| Price/Cash Flow | 8.85 | 09/30/10 | 10.95 | 09/30/10 | 3.07 |
| Price / Sales | - | 06/30/10 | 11.20 | 06/30/10 | 3.16 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 0.56 | 09/30/10 | 0.35 | 09/30/10 | 8.73 |
| 06/30/10 | 0.60 | 06/30/10 | 0.38 | 06/30/10 | 8.59 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 14.46 | 09/30/10 | 14.46 | 09/30/10 | 25.41 |
| 06/30/10 | 14.39 | 06/30/10 | 14.39 | 06/30/10 | 26.00 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 7.34 | 09/30/10 | 0.88 | 09/30/10 | 46.70 |
| 06/30/10 | 7.41 | 06/30/10 | 0.86 | 06/30/10 | 46.14 |

**PIEDMONT NAT GAS INC (NYSE)****Scottrade**

PNY 29.47 ▼ -0.14 (-0.47%) Vol. 184,911 11:36 ET

Piedmont Natural Gas Co., Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.


General Information

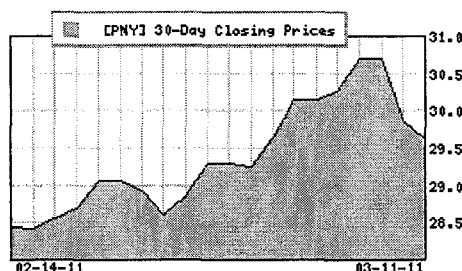
PIEDMONT NAT GA
4720 Piedmont Row Drive
Charlotte, NC 28210
Phone: 704 364-3120
Fax: 704-365-3849
Web: www.piedmontng.com
Email: investorrelations@piedmontng.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: October
Last Reported Quarter: 01/31/11
Next EPS Date: 06/07/2011

Price and Volume Information

Zacks Rank 
Yesterday's Close: 29.61
52 Week High: 30.96
52 Week Low: 24.50
Beta: 0.25
20 Day Moving Average: 322,136.84
Target Price Consensus: 27.25

**% Price Change**

4 Week: 4.19
12 Week: -0.10
YTD: 5.90

% Price Change Relative to S&P 500

4 Week: 6.17
12 Week: -4.73
YTD: 2.11

Share Information

Shares Outstanding (millions): 72.42
Market Capitalization (millions): 2,144.42
Short Ratio: 11.22
Last Split Date: 11/01/2004

Dividend Information

Dividend Yield: 3.78%
Annual Dividend: \$1.12
Payout Ratio: 0.72
Change in Payout Ratio: 0.02
Last Dividend Payout / Amount: 12/22/2010 / \$0.28

EPS Information

Current Quarter EPS Consensus Estimate: 0.66
Current Year EPS Consensus Estimate: 1.59
Estimated Long-Term EPS Growth Rate: 4.50
Next EPS Report Date: 06/07/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.43
30 Days Ago: 3.43
60 Days Ago: 3.43
90 Days Ago: 2.86

Fundamental Ratios**P/E**

Current FY Estimate: 18.66
Trailing 12 Months: 18.98
PEG Ratio: 4.15

EPS Growth

vs. Previous Year: 1.75%
vs. Previous Quarter: 1,066.67%

Sales Growth

vs. Previous Year: -3.22%
vs. Previous Quarter: 235.92%

| Price Ratios | | ROE | | ROA | |
|--------------------|-------|----------------|-------|------------------|-------|
| Price/Book | 2.21 | 01/31/11 | 11.39 | 01/31/11 | 3.76 |
| Price/Cash Flow | 9.97 | 10/31/10 | 11.31 | 10/31/10 | 3.65 |
| Price / Sales | 1.40 | 07/31/10 | 11.91 | 07/31/10 | 3.79 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 01/31/11 | - | 01/31/11 | - | 01/31/11 | 7.36 |
| 10/31/10 | 0.66 | 10/31/10 | 0.44 | 10/31/10 | 7.21 |
| 07/31/10 | 0.77 | 07/31/10 | 0.48 | 07/31/10 | 7.39 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 01/31/11 | - | 01/31/11 | - | 01/31/11 | - |
| 10/31/10 | 15.06 | 10/31/10 | 15.06 | 10/31/10 | 13.38 |
| 07/31/10 | 15.52 | 07/31/10 | 15.52 | 07/31/10 | 13.74 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 01/31/11 | - | 01/31/11 | - | 01/31/11 | - |
| 10/31/10 | 11.93 | 10/31/10 | 0.70 | 10/31/10 | 41.05 |
| 07/31/10 | 12.06 | 07/31/10 | 0.74 | 07/31/10 | 42.54 |

**SOUTH JERSEY INDS INC (NYSE)****Scottrade**
SJI **55.88** **-1.14** **(-2.00%)** **Vol. 87,080**

14:40 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

General Information**SOUTH JERSEY IN**

1 South Jersey Plaza

Folsom, NJ 08037

Phone: 609 561-9000

Fax: 609 561-8225

Web: www.sjindustries.com

Email: investorrelations@sjindustries.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 12/31/10
Next EPS Date: 05/05/2011

Price and Volume Information**Zacks Rank**

Yesterday's Close: 57.02

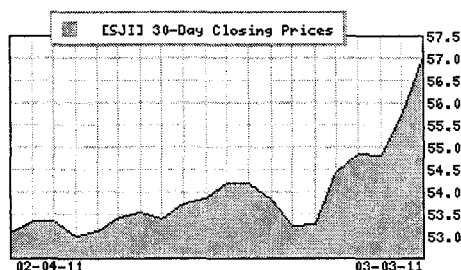
52 Week High: 57.29

52 Week Low: 39.63

Beta: 0.29

20 Day Moving Average: 82,356.50

Target Price Consensus: 57.67

**% Price Change**

4 Week: 7.42

12 Week: 9.25

YTD: 7.95

% Price Change Relative to S&P 500

4 Week: 5.50

12 Week: 1.21

YTD: -1.83

Share Information

Shares Outstanding (millions): 29.87

Market Capitalization (millions): 1,703.36

Short Ratio: 20.98

Last Split Date: 07/01/2005

Dividend Information

Dividend Yield: 2.56%

Annual Dividend: \$1.46

Payout Ratio: 0.00

Change in Payout Ratio: 0.00

Last Dividend Payout / Amount: 12/08/2010 / \$0.37

EPS Information

Current Quarter EPS Consensus Estimate: 1.62

Current Year EPS Consensus Estimate: 3.06

Estimated Long-Term EPS Growth Rate: 6.50

Next EPS Report Date: 05/05/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.57

30 Days Ago: 1.57

60 Days Ago: 1.64

90 Days Ago: 1.64

Fundamental Ratios**P/E**

Current FY Estimate:

18.61

EPS Growth

vs. Previous Year

4.82%

Sales Growth

vs. Previous Year

27.86%

Trailing 12 Months:

21.12

vs. Previous Quarter

770.00%

vs. Previous Quarter:

76.43%

PEG Ratio

2.86

Price Ratios**ROE****ROA**

| | | | | | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Book | 2.99 | 12/31/10 | - | 12/31/10 | - |
| Price/Cash Flow | 13.55 | 09/30/10 | 14.33 | 09/30/10 | 4.32 |
| Price / Sales | 1.84 | 06/30/10 | 13.63 | 06/30/10 | 4.19 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 0.58 | 09/30/10 | 0.41 | 09/30/10 | 9.22 |
| 06/30/10 | 0.74 | 06/30/10 | 0.54 | 06/30/10 | 9.01 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 11.28 | 09/30/10 | 11.28 | 09/30/10 | 18.62 |
| 06/30/10 | 11.76 | 06/30/10 | 11.76 | 06/30/10 | 18.56 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 7.65 | 09/30/10 | 0.51 | 09/30/10 | 33.88 |
| 06/30/10 | 6.86 | 06/30/10 | 0.67 | 06/30/10 | 40.11 |

**SOUTHWEST GAS CORP (NYSE)**

Scottrade

SWX **38.97** ▼ **-0.43** **(-1.09%)** **Vol. 43,464**

14:40 ET

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.


General Information

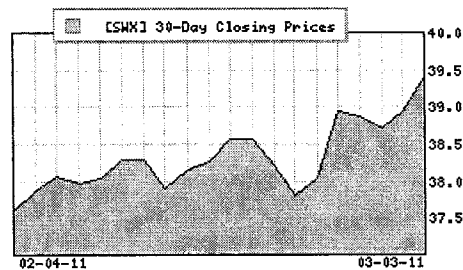
SOUTHWEST GAS
 5241 Spring Mountain Road
 P.O. Box 98510
 Las Vegas, NV 89193-8510
 Phone: 702 876-7237
 Fax: 702-876-7037
 Web: www.swgas.com
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 12/31/10
 Next EPS Date: 05/11/2011

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 39.40
 52 Week High: 39.53
 52 Week Low: 28.12
 Beta: 0.73
 20 Day Moving Average: 158,886.66
 Target Price Consensus: 35.38

**% Price Change**

4 Week: 4.18
 12 Week: 11.27
 YTD: 7.44

% Price Change Relative to S&P 500

4 Week: 2.31
 12 Week: 3.08
 YTD: 1.16

Share Information

Shares Outstanding (millions): 45.78
 Market Capitalization (millions): 1,803.89
 Short Ratio: 8.01
 Last Split Date: N/A

Dividend Information

Dividend Yield: 2.54%
 Annual Dividend: \$1.00
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 02/11/2011 / \$0.25

EPS Information

Current Quarter EPS Consensus Estimate: 1.46
 Current Year EPS Consensus Estimate: 2.26
 Estimated Long-Term EPS Growth Rate: 6.00
 Next EPS Report Date: 05/11/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.50
 30 Days Ago: 3.50
 60 Days Ago: 3.00
 90 Days Ago: 3.00

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|------------------------------|
| Current FY Estimate: 17.45 | vs. Previous Year: -3.92% | vs. Previous Year: -6.15% |
| Trailing 12 Months: 15.82 | vs. Previous Quarter: 790.91% | vs. Previous Quarter: 52.14% |
| PEG Ratio: 2.91 | | |

| Price Ratios | ROE | ROA |
|------------------|----------|----------|
| Price/Book: 1.54 | 12/31/10 | 12/31/10 |

| | | | | | |
|---------------------------|------|-----------------------|-------|-------------------------|-------|
| Price/Cash Flow | 6.78 | 09/30/10 | 10.16 | 09/30/10 | 3.02 |
| Price / Sales | 0.99 | 06/30/10 | 10.60 | 06/30/10 | 3.12 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 0.57 | 09/30/10 | 0.57 | 09/30/10 | 6.18 |
| 06/30/10 | 0.58 | 06/30/10 | 0.58 | 06/30/10 | 6.33 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | 8.62 | 09/30/10 | 8.62 | 09/30/10 | 24.62 |
| 06/30/10 | 8.34 | 06/30/10 | 8.34 | 06/30/10 | 25.13 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 12/31/10 | - | 12/31/10 | - | 12/31/10 | - |
| 09/30/10 | - | 09/30/10 | 0.96 | 09/30/10 | 49.02 |
| 06/30/10 | - | 06/30/10 | 0.94 | 06/30/10 | 48.57 |



| | | | | | |
|-----------------------------|--------------|---------------|----------------|--------------------|------------------|
| WGL HLDGS INC (NYSE) | | | | | Scottrade |
| WGL | 38.08 | ▲ 0.24 | (0.63%) | Vol. 86,812 | 14:27 ET |

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.


General Information

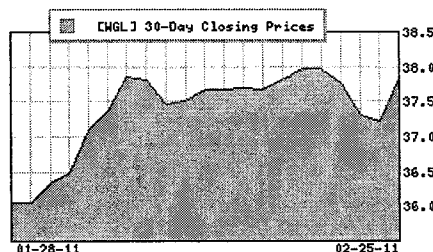
WGL HLDGS INC
 101 Constitution Avenue NW
 Washington, DC 20080
 Phone: 703 750-2000
 Fax: 703 750-4828
 Web: www.wglholdings.com
 Email: madams@washgas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Reported Quarter: 12/31/10
 Next EPS Date: 05/11/2011

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 37.84
 52 Week High: N/A
 52 Week Low: 32.49
 Beta: 0.25
 20 Day Moving Average: 219,066.25
 Target Price Consensus: 39.71



% Price Change

4 Week: 4.97
 12 Week: 5.17
 YTD: 5.79

% Price Change Relative to S&P 500

4 Week: 1.50
 12 Week: -2.41
 YTD: 0.80

Share Information

Shares Outstanding (millions): 51.07
 Market Capitalization (millions): 1,932.56
 Short Ratio: 16.68
 Last Split Date: 05/02/1995

Dividend Information

Dividend Yield: 3.99%
 Annual Dividend: \$1.51
 Payout Ratio: 0.66
 Change in Payout Ratio: 0.02
 Last Dividend Payout / Amount: 01/06/2011 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate: 1.57
 Current Year EPS Consensus Estimate: 2.06
 Estimated Long-Term EPS Growth Rate: 5.30
 Next EPS Report Date: 05/11/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.25
 30 Days Ago: 2.50
 60 Days Ago: 2.50
 90 Days Ago: 2.50

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|------------------------------|
| Current FY Estimate: 18.39 | vs. Previous Year: 0.99% | vs. Previous Year: 9.41% |
| Trailing 12 Months: 16.45 | vs. Previous Quarter: 451.72% | vs. Previous Quarter: 71.10% |
| PEG Ratio: 3.50 | | |

Price Ratios

ROE

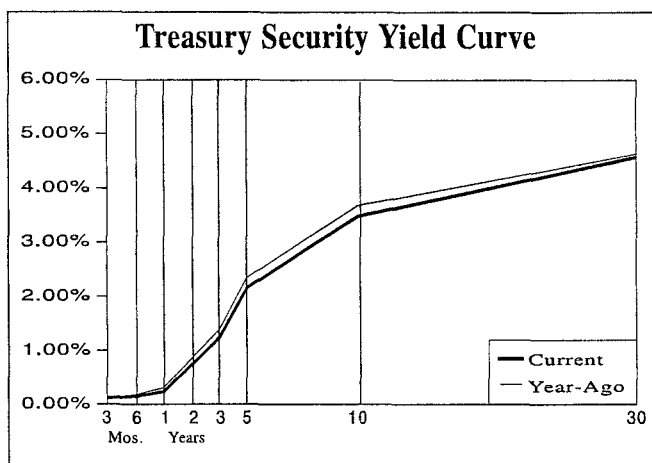
ROA

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Book | 1.61 | 12/31/10 | 9.82 | 12/31/10 | 3.17 |
| Price/Cash Flow | 9.01 | 09/30/10 | 9.86 | 09/30/10 | 3.22 |
| Price / Sales | 0.70 | 06/30/10 | 10.19 | 06/30/10 | 3.36 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 12/31/10 | 1.30 | 12/31/10 | 1.00 | 12/31/10 | 4.19 |
| 09/30/10 | 1.32 | 09/30/10 | 0.83 | 09/30/10 | 4.25 |
| 06/30/10 | 1.63 | 06/30/10 | 1.19 | 06/30/10 | 4.42 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 12/31/10 | 7.74 | 12/31/10 | 7.74 | 12/31/10 | 23.53 |
| 09/30/10 | 6.82 | 09/30/10 | 6.82 | 09/30/10 | 22.68 |
| 06/30/10 | 7.88 | 06/30/10 | 7.88 | 06/30/10 | 23.55 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 12/31/10 | 11.69 | 12/31/10 | 0.53 | 12/31/10 | 34.15 |
| 09/30/10 | 11.71 | 09/30/10 | 0.51 | 09/30/10 | 33.41 |
| 06/30/10 | 11.41 | 06/30/10 | 0.50 | 06/30/10 | 32.63 |

ATTACHMENT D

Selected Yields

| | Recent (3/2/11) | 3 Months Ago (12/01/10) | Year Ago (3/03/10) | | Recent (3/2/11) | 3 Months Ago (12/01/10) | Year Ago (3/03/10) |
|-----------------------------------|--------------------|-------------------------------|--------------------------|--|--------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.24 | 0.25 | 0.16 | | | | |
| 3-month LIBOR | 0.31 | 0.30 | 0.25 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.21 | 0.31 | 0.25 | | | | |
| 1-year | 0.29 | 0.51 | 0.44 | | | | |
| 5-year | 1.76 | 1.52 | 1.99 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.12 | 0.16 | 0.14 | | | | |
| 6-month | 0.15 | 0.19 | 0.18 | | | | |
| 1-year | 0.23 | 0.27 | 0.30 | | | | |
| 5-year | 2.17 | 1.64 | 2.27 | | | | |
| 10-year | 3.47 | 2.96 | 3.62 | | | | |
| 10-year (inflation-protected) | 0.90 | 0.77 | 1.44 | | | | |
| 30-year | 4.56 | 4.24 | 4.59 | | | | |
| 30-year Zero | 4.91 | 4.59 | 4.86 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 5.5% | 2.75 | 2.19 | 2.17 | | | | |
| FHLMC 5.5% (Gold) | 3.33 | 2.60 | 1.84 | | | | |
| FNMA 5.5% | 3.24 | 2.53 | 2.26 | | | | |
| FNMA ARM | 2.63 | 2.80 | 2.93 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.75 | 4.49 | 5.16 | | | | |
| Industrial (25/30-year) A | 5.56 | 5.48 | 5.70 | | | | |
| Utility (25/30-year) A | 5.69 | 5.60 | 5.79 | | | | |
| Utility (25/30-year) Baa/BBB | 6.08 | 6.04 | 6.28 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.34 | 3.17 | 3.42 | | | | |
| Germany | 3.20 | 2.78 | 3.14 | | | | |
| Japan | 1.28 | 1.15 | 1.34 | | | | |
| United Kingdom | 3.64 | 3.36 | 4.03 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 5.77 | 5.79 | 5.94 | | | | |
| Financial A | 6.54 | 6.60 | 6.73 | | | | |
| Financial Adjustable A | 5.53 | 5.53 | 5.53 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.95 | 4.60 | 4.36 | | | | |
| 25-Bond Index (Revs) | 5.57 | 5.16 | 4.94 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.40 | 0.44 | 0.27 | | | | |
| 1-year A | 1.22 | 1.36 | 1.04 | | | | |
| 5-year Aaa | 1.82 | 1.46 | 1.49 | | | | |
| 5-year A | 2.76 | 2.55 | 2.49 | | | | |
| 10-year Aaa | 3.20 | 3.08 | 3.02 | | | | |
| 10-year A | 4.37 | 4.21 | 4.07 | | | | |
| 25/30-year Aaa | 4.72 | 4.52 | 4.44 | | | | |
| 25/30-year A | 6.25 | 5.67 | 5.48 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.18 | 4.99 | 4.76 | | | | |
| Electric AA | 5.30 | 5.01 | 4.75 | | | | |
| Housing AA | 6.28 | 5.83 | 5.62 | | | | |
| Hospital AA | 5.59 | 5.20 | 5.06 | | | | |
| Toll Road Aaa | 5.34 | 5.02 | 4.81 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 2/23/11 | 2/9/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1217550 | 1092479 | 125071 | 1050768 | 1017040 | 1040567 |
| Borrowed Reserves | 22001 | 22666 | -665 | 35991 | 43735 | 60430 |
| Net Free/Borrowed Reserves | 1195549 | 1069813 | 125736 | 1014777 | 973305 | 980137 |

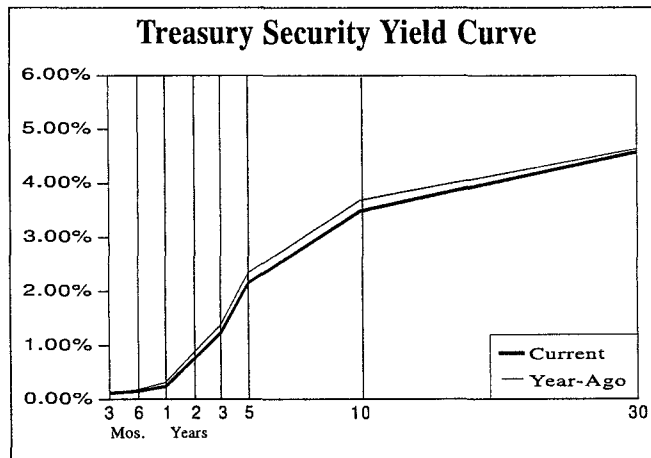
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|--------|--------|-------------------------------|--------|---------|
| | 2/14/11 | 2/7/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1852.7 | 1861.3 | -8.6 | 12.1% | 12.7% | 8.0% |
| M2 (M1+savings+small time deposits) | 8882.9 | 8874.5 | 8.4 | 5.0% | 5.4% | 3.9% |

Selected Yields

| | Recent (2/23/11) | 3 Months Ago (11/23/10) | Year Ago (2/24/10) | | Recent (2/23/11) | 3 Months Ago (11/23/10) | Year Ago (2/24/10) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.23 | 0.24 | 0.15 | | | | |
| 3-month LIBOR | 0.31 | 0.29 | 0.25 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.21 | 0.31 | 0.25 | | | | |
| 1-year | 0.29 | 0.51 | 0.45 | | | | |
| 5-year | 1.65 | 1.51 | 1.99 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.12 | 0.13 | 0.11 | | | | |
| 6-month | 0.15 | 0.19 | 0.18 | | | | |
| 1-year | 0.24 | 0.24 | 0.31 | | | | |
| 5-year | 2.17 | 1.40 | 2.35 | | | | |
| 10-year | 3.49 | 2.77 | 3.69 | | | | |
| 10-year (inflation-protected) | 0.97 | 0.67 | 1.50 | | | | |
| 30-year | 4.58 | 4.20 | 4.64 | | | | |
| 30-year Zero | 4.94 | 4.60 | 4.90 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 5.5% | 2.78 | 1.64 | 2.39 | | | | |
| FHLMC 5.5% (Gold) | 3.36 | 2.04 | 2.03 | | | | |
| FNMA 5.5% | 3.27 | 1.92 | 2.81 | | | | |
| FNMA ARM | 2.66 | 2.81 | 2.98 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.73 | 4.29 | 5.33 | | | | |
| Industrial (25/30-year) A | 5.57 | 5.40 | 5.74 | | | | |
| Utility (25/30-year) A | 5.66 | 5.51 | 5.85 | | | | |
| Utility (25/30-year) Baa/BBB | 6.07 | 5.94 | 6.34 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.33 | 3.11 | 3.45 | | | | |
| Germany | 3.14 | 2.55 | 3.14 | | | | |
| Japan | 1.26 | 1.14 | 1.33 | | | | |
| United Kingdom | 3.67 | 3.26 | 4.08 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 5.79 | 5.77 | 5.94 | | | | |
| Financial A | 6.07 | 6.07 | 6.73 | | | | |
| Financial Adjustable A | 5.52 | 5.52 | 5.52 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.10 | 4.72 | 4.38 | | | | |
| 25-Bond Index (Revs) | 5.60 | 5.25 | 4.97 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.37 | 0.43 | 0.32 | | | | |
| 1-year A | 1.21 | 1.35 | 1.08 | | | | |
| 5-year Aaa | 1.85 | 1.53 | 1.55 | | | | |
| 5-year A | 2.80 | 2.63 | 2.58 | | | | |
| 10-year Aaa | 3.36 | 3.12 | 3.11 | | | | |
| 10-year A | 4.43 | 4.27 | 4.11 | | | | |
| 25/30-year Aaa | 4.80 | 4.53 | 4.46 | | | | |
| 25/30-year A | 6.25 | 5.73 | 5.51 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.23 | 4.99 | 4.79 | | | | |
| Electric AA | 5.37 | 5.01 | 4.78 | | | | |
| Housing AA | 6.36 | 5.87 | 5.65 | | | | |
| Hospital AA | 5.60 | 5.20 | 5.07 | | | | |
| Toll Road Aaa | 5.38 | 5.02 | 4.84 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 2/9/11 | 1/26/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1092486 | 1041034 | 51452 | 1014870 | 1003345 | 1036933 |
| Borrowed Reserves | 22666 | 25101 | -2435 | 39510 | 46673 | 64314 |
| Net Free/Borrowed Reserves | 1069820 | 1015933 | 53887 | 975360 | 956673 | 972619 |

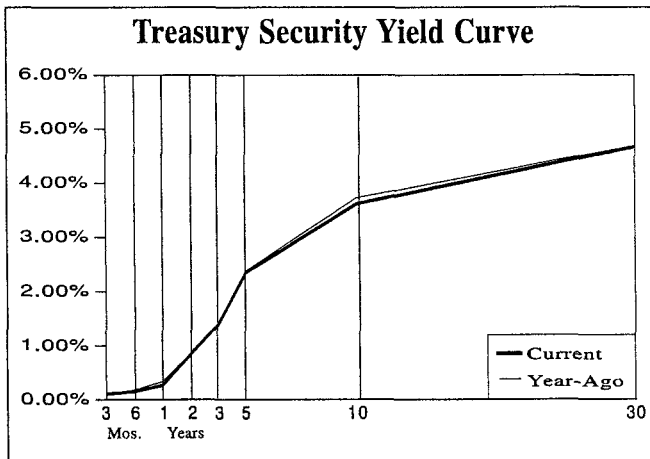
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 2/7/11 | 1/31/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1861.2 | 1896.0 | -34.8 | 2.4% | 13.7% | 10.0% |
| M2 (M1+savings+small time deposits) | 8873.7 | 8868.1 | 5.6 | 4.9% | 5.4% | 4.3% |

Selected Yields

| | Recent (2/16/11) | 3 Months Ago (11/17/10) | Year Ago (2/17/10) | | Recent (2/16/11) | 3 Months Ago (11/17/10) | Year Ago (2/17/10) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.50 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.31 | 0.24 | 0.16 | | | | |
| 3-month LIBOR | 0.31 | 0.28 | 0.25 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.21 | 0.31 | 0.25 | | | | |
| 1-year | 0.29 | 0.52 | 0.45 | | | | |
| 5-year | 1.65 | 1.53 | 1.97 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.11 | 0.13 | 0.09 | | | | |
| 6-month | 0.15 | 0.18 | 0.18 | | | | |
| 1-year | 0.27 | 0.26 | 0.34 | | | | |
| 5-year | 2.35 | 1.47 | 2.38 | | | | |
| 10-year | 3.62 | 2.88 | 3.73 | | | | |
| 10-year (inflation-protected) | 1.25 | 0.76 | 1.44 | | | | |
| 30-year | 4.68 | 4.29 | 4.70 | | | | |
| 30-year Zero | 5.01 | 4.71 | 4.96 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 2.96 | 1.85 | 2.99 | | | | |
| FHLMC 6.5% (Gold) | 3.51 | 2.14 | 1.75 | | | | |
| FNMA 6.5% | 3.45 | 2.00 | 2.61 | | | | |
| FNMA ARM | 2.66 | 2.81 | 2.98 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.85 | 4.35 | 5.41 | | | | |
| Industrial (25/30-year) A | 5.65 | 5.41 | 5.85 | | | | |
| Utility (25/30-year) A | 5.77 | 5.60 | 5.93 | | | | |
| Utility (25/30-year) Baa/BBB | 6.15 | 6.02 | 6.44 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.50 | 3.10 | 3.47 | | | | |
| Germany | 3.24 | 2.60 | 3.19 | | | | |
| Japan | 1.36 | 1.07 | 1.33 | | | | |
| United Kingdom | 3.81 | 3.27 | 4.03 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 5.79 | 5.79 | 5.40 | | | | |
| Financial A | 6.07 | 6.07 | 7.14 | | | | |
| Financial Adjustable A | 5.52 | 5.52 | 5.52 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.29 | 4.24 | 4.34 | | | | |
| 25-Bond Index (Revs) | 5.67 | 4.87 | 4.96 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.38 | 0.40 | 0.31 | | | | |
| 1-year A | 1.16 | 1.26 | 1.10 | | | | |
| 5-year Aaa | 1.95 | 1.46 | 1.55 | | | | |
| 5-year A | 2.87 | 2.54 | 2.59 | | | | |
| 10-year Aaa | 3.52 | 2.96 | 3.12 | | | | |
| 10-year A | 4.52 | 4.18 | 4.10 | | | | |
| 25/30-year Aaa | 4.94 | 4.45 | 4.45 | | | | |
| 25/30-year A | 6.25 | 5.64 | 5.50 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.33 | 4.86 | 4.77 | | | | |
| Electric AA | 5.48 | 4.88 | 4.76 | | | | |
| Housing AA | 6.42 | 5.75 | 5.63 | | | | |
| Hospital AA | 5.71 | 5.08 | 5.03 | | | | |
| Toll Road Aaa | 5.46 | 4.90 | 4.83 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 2/9/11 | 1/26/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1092493 | 1041050 | 51443 | 1014873 | 1003347 | 1036934 |
| Borrowed Reserves | 22666 | 25101 | -2435 | 39510 | 46673 | 64314 |
| Net Free/Borrowed Reserves | 1069827 | 1015949 | 53878 | 975363 | 956674 | 972620 |

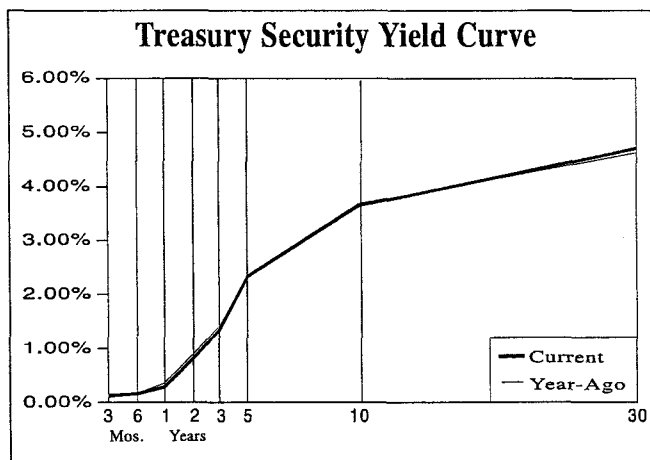
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 1/31/11 | 1/24/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1895.4 | 1861.2 | 34.2 | 31.8% | 19.1% | 12.8% |
| M2 (M1+savings+small time deposits) | 8867.8 | 8828.3 | 39.5 | 4.1% | 5.1% | 4.3% |

Selected Yields

| | <i>Recent</i> <i>(2/09/11)</i> | <i>3 Months</i> <i>Ago</i> <i>(11/10/10)</i> | <i>Year</i> <i>Ago</i> <i>(2/10/10)</i> | | <i>Recent</i> <i>(2/09/11)</i> | <i>3 Months</i> <i>Ago</i> <i>(11/10/10)</i> | <i>Year</i> <i>Ago</i> <i>(2/10/10)</i> |
|---------------------------------|-----------------------------------|--|---|-----------------------------------|-----------------------------------|--|---|
| TAXABLE | | | | | | | |
| Market Rates | | | | Mortgage-Backed Securities | | | |
| Discount Rate | 0.75 | 0.75 | 0.50 | GNMA 6.5% | 3.17 | 1.19 | 3.10 |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | FHLMC 6.5% (Gold) | 3.78 | 1.72 | 2.05 |
| Prime Rate | 3.25 | 3.25 | 3.25 | FNMA 6.5% | 3.68 | 1.67 | 2.03 |
| 30-day CP (A1/P1) | 0.31 | 0.22 | 0.16 | FNMA ARM | 2.66 | 2.81 | 2.98 |
| 3-month LIBOR | 0.31 | 0.29 | 0.25 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 4.94 | 3.96 | 5.40 |
| 6-month | 0.21 | 0.32 | 0.25 | Industrial (25/30-year) A | 5.67 | 5.28 | 5.75 |
| 1-year | 0.29 | 0.52 | 0.45 | Utility (25/30-year) A | 5.82 | 5.49 | 5.80 |
| 5-year | 1.65 | 1.55 | 1.97 | Utility (25/30-year) Baa/BBB | 6.22 | 5.88 | 6.34 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.13 | 0.13 | 0.10 | Canada | 3.45 | 2.97 | 3.44 |
| 6-month | 0.16 | 0.16 | 0.17 | Germany | 3.31 | 2.44 | 3.20 |
| 1-year | 0.29 | 0.22 | 0.36 | Japan | 1.34 | 1.00 | 1.34 |
| 5-year | 2.33 | 1.20 | 2.36 | United Kingdom | 3.87 | 3.16 | 3.93 |
| 10-year | 3.65 | 2.63 | 3.69 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 1.20 | 0.48 | 1.31 | Utility A | 5.80 | 5.79 | 5.98 |
| 30-year | 4.71 | 4.23 | 4.63 | Financial A | 6.06 | 6.06 | 6.87 |
| 30-year Zero | 5.02 | 4.69 | 4.88 | Financial Adjustable A | 5.51 | 5.51 | 5.51 |

**TAX-EXEMPT**

| | | | |
|--|------|------|------|
| Bond Buyer Indexes | | | |
| 20-Bond Index (GOs) | 5.25 | 4.02 | 4.36 |
| 25-Bond Index (Revs) | 5.63 | 4.71 | 4.96 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.39 | 0.35 | 0.31 |
| 1-year A | 1.16 | 1.19 | 1.17 |
| 5-year Aaa | 1.96 | 1.26 | 1.58 |
| 5-year A | 2.87 | 2.33 | 2.63 |
| 10-year Aaa | 3.57 | 2.71 | 3.12 |
| 10-year A | 4.54 | 3.91 | 4.10 |
| 25/30-year Aaa | 4.97 | 4.25 | 4.43 |
| 25/30-year A | 6.26 | 5.44 | 5.48 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 5.35 | 4.66 | 4.80 |
| Electric AA | 5.48 | 4.68 | 4.74 |
| Housing AA | 6.44 | 5.51 | 5.63 |
| Hospital AA | 5.71 | 4.86 | 5.03 |
| Toll Road Aaa | 5.48 | 4.66 | 4.81 |

Federal Reserve Data

BANK RESERVES*(Two-Week Period; in Millions, Not Seasonally Adjusted)*

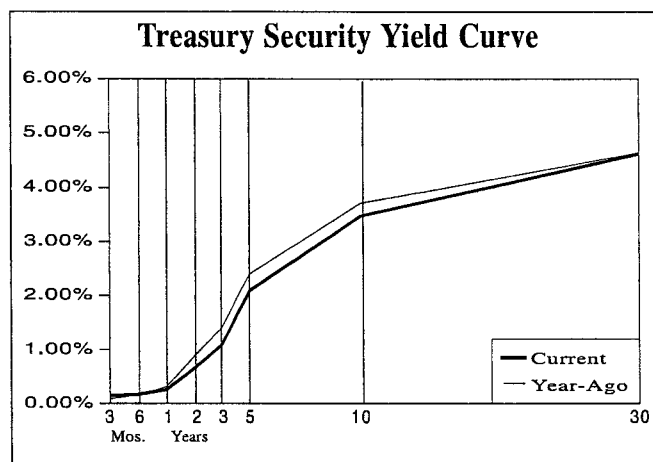
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 1/26/11 | 1/12/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1041051 | 1009442 | 31609 | 997291 | 997602 | 1035856 |
| Borrowed Reserves | 25101 | 44575 | -19474 | 43057 | 49723 | 68115 |
| Net Free/Borrowed Reserves | 1015950 | 964867 | 51083 | 954234 | 947879 | 967741 |

MONEY SUPPLY*(One-Week Period; in Billions, Seasonally Adjusted)*

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 1/24/11 | 1/17/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1861.4 | 1852.8 | 8.6 | 16.5% | 14.7% | 10.7% |
| M2 (M1+savings+small time deposits) | 8828.7 | 8861.9 | -33.2 | 3.2% | 4.5% | 4.2% |

Selected Yields

| | Recent (2/02/11) | 3 Months Ago (11/03/10) | Year Ago (2/03/10) | | Recent (2/02/11) | 3 Months Ago (11/03/10) | Year Ago (2/03/10) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.50 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.25 | 0.23 | 0.17 | | | | |
| 3-month LIBOR | 0.31 | 0.29 | 0.25 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.30 | 0.32 | 0.25 | | | | |
| 1-year | 0.48 | 0.53 | 0.45 | | | | |
| 5-year | 1.59 | 1.57 | 1.97 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.15 | 0.12 | 0.09 | | | | |
| 6-month | 0.17 | 0.15 | 0.16 | | | | |
| 1-year | 0.26 | 0.20 | 0.31 | | | | |
| 5-year | 2.09 | 1.11 | 2.40 | | | | |
| 10-year | 3.48 | 2.57 | 3.71 | | | | |
| 10-year (inflation-protected) | 1.02 | 0.42 | 1.22 | | | | |
| 30-year | 4.62 | 4.04 | 4.64 | | | | |
| 30-year Zero | 4.96 | 4.43 | 4.87 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 3.06 | 1.23 | 3.10 | | | | |
| FHLMC 6.5% (Gold) | 3.45 | 1.51 | 2.29 | | | | |
| FNMA 6.5% | 3.27 | 1.27 | 2.25 | | | | |
| FNMA ARM | 2.66 | 2.81 | 2.98 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.86 | 3.99 | 5.46 | | | | |
| Industrial (25/30-year) A | 5.63 | 5.28 | 5.76 | | | | |
| Utility (25/30-year) A | 5.78 | 5.35 | 5.80 | | | | |
| Utility (25/30-year) Baa/BBB | 6.18 | 5.79 | 6.41 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.38 | 2.87 | 3.43 | | | | |
| Germany | 3.26 | 2.42 | 3.22 | | | | |
| Japan | 1.23 | 0.95 | 1.36 | | | | |
| United Kingdom | 3.76 | 3.15 | 3.92 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 5.79 | 5.77 | 5.59 | | | | |
| Financial A | 6.05 | 6.48 | 6.69 | | | | |
| Financial Adjustable A | 5.50 | 5.50 | 5.50 | | | | |

**TAX-EXEMPT**

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.25 | 3.96 | 4.39 | | | | |
| 25-Bond Index (Revs) | 5.61 | 4.67 | 4.99 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.39 | 0.32 | 0.30 | | | | |
| 1-year A | 1.17 | 1.13 | 1.24 | | | | |
| 5-year Aaa | 1.90 | 1.31 | 1.62 | | | | |
| 5-year A | 2.82 | 2.26 | 2.73 | | | | |
| 10-year Aaa | 3.51 | 2.71 | 3.21 | | | | |
| 10-year A | 4.50 | 3.86 | 4.16 | | | | |
| 25/30-year Aaa | 4.92 | 4.23 | 4.46 | | | | |
| 25/30-year A | 6.24 | 5.41 | 5.48 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.33 | 4.63 | 4.80 | | | | |
| Electric AA | 5.48 | 4.65 | 4.76 | | | | |
| Housing AA | 6.41 | 5.50 | 5.65 | | | | |
| Hospital AA | 5.69 | 4.84 | 5.03 | | | | |
| Toll Road Aaa | 5.46 | 4.64 | 4.79 | | | | |

Federal Reserve Data

BANK RESERVES*(Two-Week Period; in Millions, Not Seasonally Adjusted)*

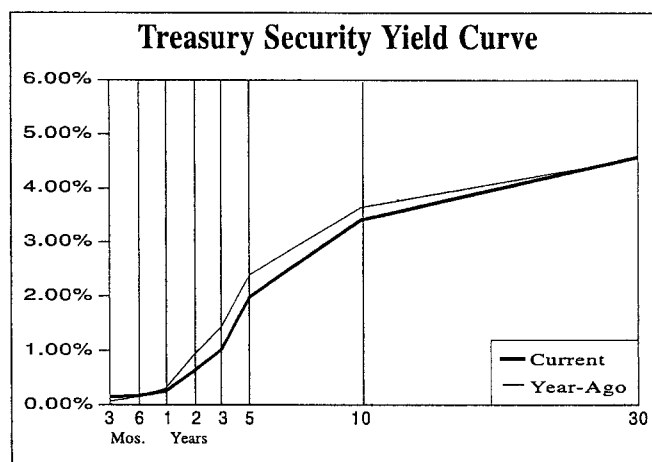
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 1/26/11 | 1/12/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1041051 | 1009440 | 31611 | 997291 | 997602 | 1035856 |
| Borrowed Reserves | 25101 | 44575 | -19474 | 43057 | 49723 | 68115 |
| Net Free/Borrowed Reserves | 1015950 | 964865 | 51085 | 954233 | 947879 | 967741 |

MONEY SUPPLY*(One-Week Period; in Billions, Seasonally Adjusted)*

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 1/17/11 | 1/10/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1853.2 | 1822.9 | 30.3 | 16.8% | 15.1% | 10.4% |
| M2 (M1+savings+small time deposits) | 8862.3 | 8815.7 | 46.6 | 5.5% | 5.8% | 4.8% |

Selected Yields

| | Recent (1/26/11) | 3 Months Ago (10/27/10) | Year Ago (1/27/10) | | Recent (1/26/11) | 3 Months Ago (10/27/10) | Year Ago (1/27/10) |
|-------------------------------|---------------------|-------------------------------|--------------------------|------------------------------|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | Mortgage-Backed Securities | | | |
| Discount Rate | 0.75 | 0.75 | 0.50 | GNMA 6.5% | 2.90 | 1.22 | 3.05 |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | FHLMC 6.5% (Gold) | 3.19 | 1.69 | 2.24 |
| Prime Rate | 3.25 | 3.25 | 3.25 | FNMA 6.5% | 3.06 | 1.53 | 2.14 |
| 30-day CP (A1/P1) | 0.27 | 0.23 | 0.16 | FNMA ARM | 2.72 | 2.86 | 3.24 |
| 3-month LIBOR | 0.30 | 0.29 | 0.25 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 4.73 | 4.22 | 5.49 |
| 6-month | 0.31 | 0.32 | 0.25 | Industrial (25/30-year) A | 5.52 | 5.28 | 5.69 |
| 1-year | 0.49 | 0.54 | 0.46 | Utility (25/30-year) A | 5.64 | 5.31 | 5.72 |
| 5-year | 1.65 | 1.61 | 2.00 | Utility (25/30-year) Baa/BBB | 6.10 | 5.86 | 6.32 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.15 | 0.13 | 0.07 | Canada | 3.31 | 2.89 | 3.35 |
| 6-month | 0.17 | 0.17 | 0.15 | Germany | 3.19 | 2.57 | 3.20 |
| 1-year | 0.26 | 0.22 | 0.31 | Japan | 1.24 | 0.96 | 1.32 |
| 5-year | 1.99 | 1.31 | 2.39 | United Kingdom | 3.69 | 3.15 | 3.88 |
| 10-year | 3.42 | 2.72 | 3.65 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 1.03 | 0.56 | 1.24 | Utility A | 5.79 | 5.79 | 5.58 |
| 30-year | 4.59 | 4.06 | 4.56 | Financial A | 6.52 | 6.05 | 6.68 |
| 30-year Zero | 4.93 | 4.40 | 4.80 | Financial Adjustable A | 5.50 | 5.50 | 5.50 |



TAX-EXEMPT

| Bond Buyer Indexes | | | |
|-----------------------------------|------|------|------|
| 20-Bond Index (GOs) | 5.41 | 3.84 | 4.30 |
| 25-Bond Index (Revs) | 5.66 | 4.60 | 4.91 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.41 | 0.34 | 0.30 |
| 1-year A | 1.28 | 1.13 | 1.23 |
| 5-year Aaa | 1.91 | 1.28 | 1.64 |
| 5-year A | 2.96 | 2.24 | 2.73 |
| 10-year Aaa | 3.60 | 2.64 | 3.25 |
| 10-year A | 4.49 | 3.77 | 4.18 |
| 25/30-year Aaa | 5.06 | 4.21 | 4.43 |
| 25/30-year A | 6.27 | 5.41 | 5.43 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 5.46 | 4.63 | 4.81 |
| Electric AA | 5.57 | 4.65 | 4.74 |
| Housing AA | 6.44 | 5.52 | 5.65 |
| Hospital AA | 5.75 | 4.80 | 5.01 |
| Toll Road Aaa | 5.60 | 4.62 | 4.86 |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|----------|--------|---------------------------------|---------|---------|
| | 1/12/11 | 12/29/10 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1009440 | 991199 | 18241 | 988725 | 996847 | 1034510 |
| Borrowed Reserves | 44575 | 45342 | -767 | 46450 | 52709 | 73296 |
| Net Free/Borrowed Reserves | 964865 | 945857 | 19008 | 942275 | 944138 | 961214 |

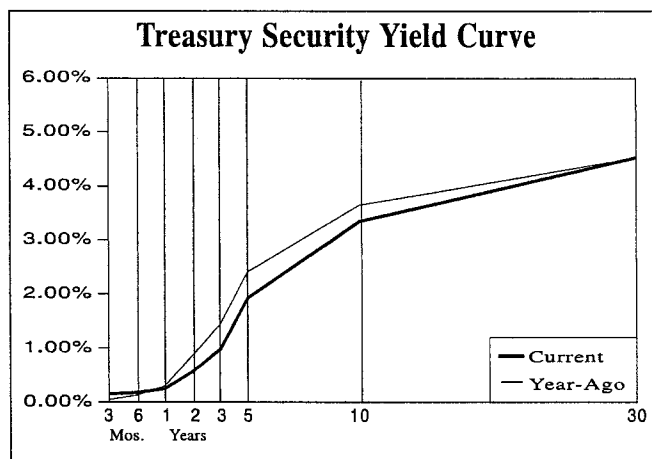
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|--------|--------|-------------------------------|--------|---------|
| | 1/10/11 | 1/3/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1822.9 | 1832.4 | -9.5 | 5.8% | 10.6% | 9.2% |
| M2 (M1+savings+small time deposits) | 8815.0 | 8808.1 | 6.9 | 3.6% | 5.0% | 4.3% |

Selected Yields

| | Recent (1/19/11) | 3 Months Ago (10/20/10) | Year Ago (1/20/10) | | Recent (1/19/11) | 3 Months Ago (10/20/10) | Year Ago (1/20/10) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.50 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.27 | 0.23 | 0.15 | | | | |
| 3-month LIBOR | 0.30 | 0.29 | 0.25 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.30 | 0.32 | 0.25 | | | | |
| 1-year | 0.48 | 0.54 | 0.47 | | | | |
| 5-year | 1.60 | 1.61 | 2.00 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.15 | 0.13 | 0.05 | | | | |
| 6-month | 0.18 | 0.17 | 0.13 | | | | |
| 1-year | 0.25 | 0.21 | 0.30 | | | | |
| 5-year | 1.93 | 1.10 | 2.41 | | | | |
| 10-year | 3.34 | 2.48 | 3.65 | | | | |
| 10-year (inflation-protected) | 0.93 | 0.42 | 1.21 | | | | |
| 30-year | 4.53 | 3.89 | 4.53 | | | | |
| 30-year Zero | 4.87 | 4.25 | 4.76 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 6.5% | 2.38 | 1.29 | 3.17 | | | | |
| FHLMC 6.5% (Gold) | 3.03 | 1.68 | 2.32 | | | | |
| FNMA 6.5% | 2.89 | 1.52 | 2.28 | | | | |
| FNMA ARM | 2.72 | 2.86 | 3.24 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.78 | 4.09 | 5.44 | | | | |
| Industrial (25/30-year) A | 5.57 | 5.14 | 5.64 | | | | |
| Utility (25/30-year) A | 5.72 | 5.22 | 5.72 | | | | |
| Utility (25/30-year) Baa/BBB | 6.15 | 5.72 | 6.32 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.24 | 2.75 | 3.43 | | | | |
| Germany | 3.11 | 2.44 | 3.22 | | | | |
| Japan | 1.27 | 0.90 | 1.34 | | | | |
| United Kingdom | 3.64 | 2.99 | 4.01 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 5.79 | 5.79 | 5.57 | | | | |
| Financial A | 6.04 | 6.59 | 6.61 | | | | |
| Financial Adjustable A | 5.49 | 5.49 | 5.49 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 5.39 | 3.82 | 4.31 | | | | |
| 25-Bond Index (Revs) | 5.60 | 4.57 | 4.93 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.39 | 0.33 | 0.33 | | | | |
| 1-year A | 1.32 | 1.11 | 1.26 | | | | |
| 5-year Aaa | 1.90 | 1.25 | 1.68 | | | | |
| 5-year A | 3.00 | 2.22 | 2.76 | | | | |
| 10-year Aaa | 3.58 | 2.56 | 3.29 | | | | |
| 10-year A | 4.54 | 3.66 | 4.20 | | | | |
| 25/30-year Aaa | 5.18 | 4.17 | 4.44 | | | | |
| 25/30-year A | 6.31 | 5.41 | 5.43 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.56 | 4.63 | 4.81 | | | | |
| Electric AA | 5.57 | 4.65 | 4.74 | | | | |
| Housing AA | 6.42 | 5.53 | 5.67 | | | | |
| Hospital AA | 5.73 | 4.82 | 5.04 | | | | |
| Toll Road Aaa | 5.63 | 4.62 | 4.79 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|----------|--------|---------------------------------|---------|---------|
| | 1/12/11 | 12/29/10 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1009441 | 991195 | 18246 | 988724 | 996847 | 1034510 |
| Borrowed Reserves | 44575 | 45342 | -767 | 46450 | 52709 | 73296 |
| Net Free/Borrowed Reserves | 964866 | 945853 | 19013 | 942274 | 944138 | 961214 |

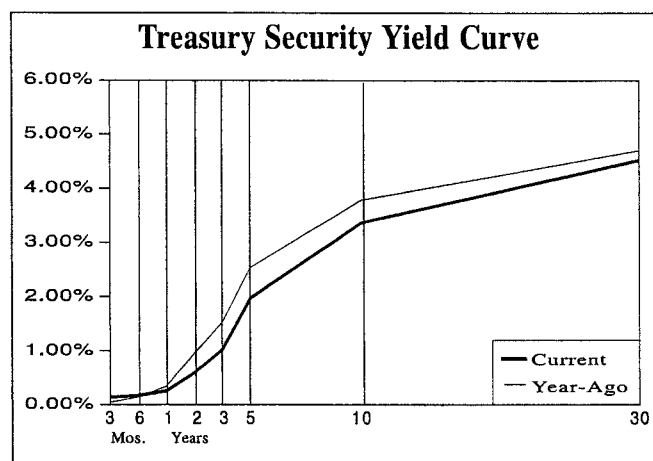
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|----------|--------|-------------------------------|--------|---------|
| | 1/3/11 | 12/27/10 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1865.1 | 1859.7 | 5.4 | 18.1% | 16.9% | 9.1% |
| M2 (M1+savings+small time deposits) | 8825.7 | 8848.8 | -23.1 | 3.4% | 5.7% | 4.0% |

Selected Yields

| | Recent (1/12/11) | 3 Months Ago (10/13/10) | Year Ago (1/13/10) | | Recent (1/12/11) | 3 Months Ago (10/13/10) | Year Ago (1/13/10) |
|-------------------------------|---------------------|-------------------------------|--------------------------|------------------------------|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | Mortgage-Backed Securities | | | |
| Discount Rate | 0.75 | 0.75 | 0.50 | GNMA 6.5% | 2.61 | 1.27 | 3.63 |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | FHLMC 6.5% (Gold) | 3.14 | 1.74 | 2.41 |
| Prime Rate | 3.25 | 3.25 | 3.25 | FNMA 6.5% | 2.99 | 1.58 | 2.54 |
| 30-day CP (A1/P1) | 0.27 | 0.24 | 0.16 | FNMA ARM | 2.72 | 2.86 | 3.24 |
| 3-month LIBOR | 0.30 | 0.29 | 0.25 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 4.80 | 3.96 | 5.65 |
| 6-month | 0.30 | 0.32 | 0.26 | Industrial (25/30-year) A | 5.58 | 5.01 | 5.87 |
| 1-year | 0.48 | 0.56 | 0.47 | Utility (25/30-year) A | 5.77 | 5.02 | 5.89 |
| 5-year | 1.57 | 1.66 | 2.02 | Utility (25/30-year) Baa/BBB | 6.17 | 5.56 | 6.49 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.14 | 0.12 | 0.05 | Canada | 3.26 | 2.73 | 3.60 |
| 6-month | 0.17 | 0.16 | 0.14 | Germany | 3.05 | 2.28 | 3.30 |
| 1-year | 0.26 | 0.20 | 0.35 | Japan | 1.18 | 0.88 | 1.34 |
| 5-year | 1.98 | 1.12 | 2.54 | United Kingdom | 3.64 | 2.88 | 3.96 |
| 10-year | 3.37 | 2.42 | 3.79 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 0.93 | 0.36 | 1.31 | Utility A | 5.79 | 5.76 | 5.57 |
| 30-year | 4.53 | 3.82 | 4.71 | Financial A | 6.03 | 6.38 | 5.83 |
| 30-year Zero | 4.86 | 4.16 | 4.95 | Financial Adjustable A | 5.49 | 5.49 | 5.49 |



TAX-EXEMPT

| Bond Buyer Indexes | | | |
|-----------------------------------|------|------|------|
| 20-Bond Index (GOs) | 5.08 | 3.84 | 4.31 |
| 25-Bond Index (Revs) | 5.44 | 4.58 | 4.96 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.41 | 0.34 | 0.31 |
| 1-year A | 1.28 | 1.14 | 1.27 |
| 5-year Aaa | 1.79 | 1.28 | 1.68 |
| 5-year A | 2.92 | 2.22 | 2.77 |
| 10-year Aaa | 3.38 | 2.58 | 3.28 |
| 10-year A | 4.38 | 3.71 | 4.20 |
| 25/30-year Aaa | 4.94 | 4.15 | 4.47 |
| 25/30-year A | 5.97 | 5.40 | 5.41 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 5.31 | 4.61 | 4.83 |
| Electric AA | 5.30 | 4.63 | 4.74 |
| Housing AA | 6.13 | 5.50 | 5.70 |
| Hospital AA | 5.43 | 4.81 | 5.04 |
| Toll Road Aaa | 5.35 | 4.60 | 4.80 |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|----------|--------|---------------------------------|---------|---------|
| | 12/29/10 | 12/15/10 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 991195 | 1024844 | -33649 | 982163 | 998105 | 1036378 |
| Borrowed Reserves | 45342 | 45689 | -347 | 47210 | 54428 | 77701 |
| Net Free/Borrowed Reserves | 945853 | 979155 | -33302 | 934953 | 943678 | 958676 |

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|----------|--------|-------------------------------|--------|---------|
| | 12/27/10 | 12/20/10 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1859.7 | 1823.0 | 36.7 | 19.4% | 13.7% | 9.6% |
| M2 (M1+savings+small time deposits) | 8848.4 | 8834.4 | 14.0 | 5.4% | 5.5% | 3.7% |

GOODMAN WATER COMPANY
DOCKET NO. W-02500A-10-0382
TABLE OF CONTENTS TO SCHEDULES WAR

| <u>SCHEDULE #</u> | |
|-------------------|--|
| WAR - 1 | COST OF CAPITAL SUMMARY |
| WAR - 2 | DCF COST OF EQUITY CAPITAL |
| WAR - 3 | DIVIDEND YIELD CALCULATION |
| WAR - 4 | DIVIDEND GROWTH RATE CALCULATION |
| WAR - 5 | DIVIDEND GROWTH COMPONENTS |
| WAR - 6 | GROWTH RATE COMPARISON |
| WAR - 7 | CAPM COST OF EQUITY CAPITAL |
| WAR - 8 | ECONOMIC INDICATORS - 1990 TO PRESENT |
| WAR - 9 | CAPITAL STRUCTURES OF SAMPLE COMPANIES |

WEIGHTED AVERAGE COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) COST RATE | (C) WEIGHTED COST RATE |
|-------------|----------------------|-------------------------|---------------------|---------------------------------|
| 1 | Long-Term Debt | 40.00% | 6.13% | 2.45% |
| 2 | Common Equity | 60.00% | 9.00% | 5.40% |
| 3 | Total Capitalization | 100.00% | | |

4 WEIGHTED AVERAGE COST OF CAPITAL

7.85%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
COLUMN (C): COLUMN (A) x COLUMN (B), LINE 4; LINE 1 + LINE 2

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
COST OF CAPITAL SUMMARY

DOCKET NO. W-02500A-10-0382
SCHEDULE WAR - 1
PAGE 2 OF 3

SAMPLE COMPANIES APPROXIMATE WEIGHTED COSTS OF DEBT

| LINE NO. | STOCK SYMBOL | COMPANY | WEIGHTED COSTS |
|-------------|---|----------------------------------|---------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 7.07% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 6.24% |
| 3 | WTR | AQUA AMERICA, INC. | 5.75% |
| 4 | CTWS | CONNECTICUT WATER SERVICES, INC. | 4.95% |
| 5 | MSEX | MIDDLESEX WATER COMPANY | 5.56% |
| 6 | SJW | SJW CORP. | 6.66% |
| 7 | YORW | YORK WATER COMPANY | 6.65% |
| 8 | AVERAGE OF APPROXIMATE WEIGHTED COSTS OF DEBT (a) | | 6.13% AVERAGE OF LINES 1 THRU 8 |
| 9 | RUCO RECOMMENDED COST OF DEBT | | 6.13% |

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

NOTE:
(a) COSTS ARE APPROXIMATE AND DO NOT INCLUDE THE FOLLOWING:
DEBT ISSUES THAT DID NOT HAVE STATED YIELDS; AND
DEBT ISSUES WITH ZERO RATES OF INTEREST.
IN THE CASE OF ISSUES WITH VARIABLE RATES OF INTEREST THE HIGH END OF THE VARIABLE RANGE WAS USED.

COST OF COMMON EQUITY CALCULATION

| LINE NO. | | | | |
|-------------|---|-------|--|--|
| 1 | <u>DCF METHODOLOGY</u> | | | |
| 2 | DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 9.09% | SCHEDULE WAR-2, COLUMN (C), LINE 5 | |
| 3 | DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 9.31% | SCHEDULE WAR-2, COLUMN (C), LINE 13 | |
| 4 | AVERAGE OF DCF ESTIMATES | 9.20% | (LINE 2 + LINE 3) ÷ 2 | |
| 5 | <u>CAPM METHODOLOGY</u> | | | |
| 6 | CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE | 5.35% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5 | |
| 7 | CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE | 5.10% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13 | |
| 8 | CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE | 6.64% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5 | |
| 9 | CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE | 6.29% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13 | |
| 10 | AVERAGE OF CAPM ESTIMATES | 5.85% | (SUM OF LINES 6 THRU 9) ÷ 4 | |
| 11 | AVERAGE OF DCF AND CAPM ESTIMATES | 7.52% | (SUM OF LINES 4 AND 10) ÷ 2 | |
| 12 | FINAL COST OF COMMON EQUITY ESTIMATE | 9.00% | TESTIMONY WAR | |

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-02500A-10-0382
SCHEDULE WAR - 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) DIVIDEND YIELD | + | (B) GROWTH RATE (g) | = | (C) DCF COST OF EQUITY CAPITAL |
|-------------|-------------------------|----------------------------------|--------------------------|---|---------------------------|---|--------------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 3.07% | + | 6.91% | = | 9.97% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 3.25% | + | 6.68% | = | 9.94% |
| 3 | WTR | AQUA AMERICA, INC. | 2.70% | + | 4.66% | = | 7.35% |
| 4 | WATER COMPANY AVERAGE | | 9.09% | | | | |
| 5 | AGL | AGL RESOURCES, INC. | 4.90% | + | 5.56% | = | 10.46% |
| 6 | ATO | ATMOS ENERGY CORP. | 4.16% | + | 4.10% | = | 8.26% |
| 7 | LG | LACLEDE GROUP, INC. | 4.21% | + | 4.74% | = | 8.96% |
| 8 | NJR | NEW JERSEY RESOURCES CORPORATION | 3.40% | + | 6.51% | = | 9.91% |
| 9 | NWN | NORTHWEST NATURAL GAS CO. | 3.84% | + | 4.09% | = | 7.93% |
| 10 | PNY | PIEDMONT NATURAL GAS COMPANY | 3.94% | + | 3.76% | = | 7.70% |
| 11 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2.74% | + | 11.48% | = | 14.22% |
| 12 | SWX | SOUTHWEST GAS CORPORATION | 2.83% | + | 5.51% | = | 8.34% |
| 13 | WGL | WGL HOLDINGS, INC. | 4.10% | + | 3.96% | = | 8.06% |
| 14 | NATURAL GAS LDC AVERAGE | | 9.31% | | | | |

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND YIELD CALCULATION

DOCKET NO. W-02500A-10-0382
SCHEDULE WAR - 3

| LINE NO. | STOCK SYMBOL | COMPANY | (A) ESTIMATED DIVIDEND (PER SHARE) | (B) AVERAGE STOCK PRICE (PER SHARE) | (C) DIVIDEND YIELD |
|----------|--------------|----------------------------------|---|--|--------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | \$1.04 / | \$33.92 = | 3.07% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | \$1.19 / | \$36.56 = | 3.25% |
| 3 | WTR | AQUA AMERICA, INC. | \$0.62 / | \$22.99 = | 2.70% |
| 4 | | WATER COMPANY AVERAGE | | | 3.01% |
| 5 | AGL | AGL RESOURCES, INC. | \$1.80 / | \$36.77 = | 4.90% |
| 6 | ATO | ATMOS ENERGY CORP. | \$1.36 / | \$32.67 = | 4.16% |
| 7 | LG | LACLEDE GROUP, INC. | \$1.62 / | \$38.44 = | 4.21% |
| 8 | NJR | NEW JERSEY RESOURCES CORPORATION | \$1.44 / | \$42.32 = | 3.40% |
| 9 | NWN | NORTHWEST NATURAL GAS CO. | \$1.74 / | \$45.26 = | 3.84% |
| 10 | PNY | PIEDMONT NATURAL GAS COMPANY | \$1.12 / | \$28.41 = | 3.94% |
| 11 | SJI | SOUTH JERSEY INDUSTRIES, INC. | \$1.46 / | \$53.22 = | 2.74% |
| 12 | SWX | SOUTHWEST GAS CORPORATION | \$1.06 / | \$37.42 = | 2.83% |
| 13 | WGL | WGL HOLDINGS, INC. | \$1.51 / | \$36.88 = | 4.10% |
| 14 | | NATURAL GAS LDC AVERAGE | | | 3.79% |

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/21/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF ADJUSTED CLOSING PRICES FROM 01/03/2011 TO 02/25/2011
COLUMN (C): STOCK QUOTES OBTAINED THROUGH YAHOO! FINANCE WEB SITE - HISTORICAL QUOTES (<http://finance.yahoo.com>).
COLUMN (A) DIVIDED BY COLUMN (B)

NOTE:
CLOSING STOCK PRICES ARE ADJUSTED FOR DIVIDENDS AND STOCK SPLITS.

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02500A-10-0382
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| LINE NO. | STOCK SYMBOL | COMPANY | (A) INTERNAL GROWTH (br) | + | (B) EXTERNAL GROWTH (sv) | = | (C) DIVIDEND GROWTH (g) |
|----------|--------------|----------------------------------|-----------------------------------|---|-----------------------------------|---|----------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 6.50% | + | 0.41% | = | 6.91% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 5.75% | + | 0.93% | = | 6.68% |
| 3 | WTR | AQUA AMERICA, INC. | 4.00% | + | 0.66% | = | 4.66% |
| 4 | | WATER COMPANY AVERAGE | | | | | 6.08% |
| 5 | AGL | AGL RESOURCES, INC. | 5.50% | + | 0.06% | = | 5.56% |
| 6 | ATO | ATMOS ENERGY CORP. | 3.75% | + | 0.35% | = | 4.10% |
| 7 | LG | LACLEDE GROUP, INC. | 4.00% | + | 0.74% | = | 4.74% |
| 8 | NJR | NEW JERSEY RESOURCES CORPORATION | 6.50% | + | 0.01% | = | 6.51% |
| 9 | NWN | NORTHWEST NATURAL GAS CO. | 4.00% | + | 0.09% | = | 4.09% |
| 10 | PNY | PIEDMONT NATURAL GAS COMPANY | 3.75% | + | 0.01% | = | 3.76% |
| 11 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 8.50% | + | 2.98% | = | 11.48% |
| 12 | SWX | SOUTHWEST GAS CORPORATION | 5.00% | + | 0.51% | = | 5.51% |
| 13 | WGL | WGL HOLDINGS, INC. | 3.75% | + | 0.21% | = | 3.96% |
| 14 | | NATURAL GAS LDC AVERAGE | | | | | 5.52% |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02500A-10-0382
SCHEDULE WAR - 4
PAGE 2 OF 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) SHARE GROWTH | (B) $x \left\{ \left[\left(\frac{M+B}{M} \right) + 1 \right] / 2 \right\} - 1 \}$ | (C) EXTERNAL GROWTH (sv) = |
|----------|-------------------------|----------------------------------|---------------------|--|----------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 1.25% | $x \left\{ \left[\left(\frac{1.65}{1.65} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.41% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 2.50% | $x \left\{ \left[\left(\frac{1.75}{1.75} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.93% |
| 3 | WTR | AQUA AMERICA, INC. | 0.75% | $x \left\{ \left[\left(\frac{2.75}{2.75} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.66% |
| 4 | WATER COMPANY AVERAGE | | | | <div>0.67%</div> |
| 5 | AGL | AGL RESOURCES, INC. | 0.25% | $x \left\{ \left[\left(\frac{1.49}{1.49} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.06% |
| 6 | ATO | ATMOS ENERGY CORP. | 2.75% | $x \left\{ \left[\left(\frac{1.25}{1.25} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.35% |
| 7 | LG | LACLEDE GROUP, INC. | 2.75% | $x \left\{ \left[\left(\frac{1.54}{1.54} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.74% |
| 8 | NJR | NEW JERSEY RESOURCES CORPORATION | 0.01% | $x \left\{ \left[\left(\frac{2.28}{2.28} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.01% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | 0.25% | $x \left\{ \left[\left(\frac{1.68}{1.68} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.09% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 0.01% | $x \left\{ \left[\left(\frac{2.09}{2.09} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.01% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 3.50% | $x \left\{ \left[\left(\frac{2.70}{2.70} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 2.98% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | 2.25% | $x \left\{ \left[\left(\frac{1.45}{1.45} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.51% |
| 14 | WGL | WGL HOLDINGS, INC. | 0.75% | $x \left\{ \left[\left(\frac{1.57}{1.57} \right) + 1 \right] / 2 \right\} - 1 \}$ | = 0.21% |
| 15 | NATURAL GAS LDC AVERAGE | | | | <div>0.55%</div> |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/21/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-02500A-10-0382
SCHEDULE WAR - 5
PAGE 1 OF 4

| LINE NO. | STOCK SYMBOL | WATER COMPANY NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (r) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|--------------------------------|---------------------|----------------------------|------------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 2005 | 0.3182 | 8.50% | 2.70% | 15.72 | 16.80 | |
| 2 | | | 2006 | 0.3158 | 8.10% | 2.56% | 16.64 | 17.05 | |
| 3 | | | 2007 | 0.4074 | 9.30% | 3.79% | 17.53 | 17.23 | |
| 4 | | | 2008 | 0.3548 | 8.60% | 3.05% | 17.30 | 17.30 | |
| 5 | | | 2009 | 0.3765 | 8.20% | 3.09% | 19.39 | 18.53 | |
| 6 | | | [GROWTH 2005 - 2009 | | | 3.04% | 5.00% | | 2.48% |
| 7 | | CALIFORNIA WATER SERVICE GROUP | 2010 | 0.5536 | 11.50% | 6.37% | | 18.75 | 1.19% |
| 8 | | | 2011 | 0.5592 | 11.50% | 6.43% | | 19.00 | 1.26% |
| 9 | | | 2013-15 | 0.5407 | 12.00% | 6.49% | 3.50% | 20.00 | 1.54% |
| 10 | | | | | | | | | |
| 11 | CWT | | 2005 | 0.2245 | 9.30% | 2.09% | 15.79 | 18.39 | |
| 12 | | | 2006 | 0.1418 | 6.80% | 0.96% | 18.15 | 20.66 | |
| 13 | | | 2007 | 0.2267 | 8.10% | 1.84% | 18.50 | 20.67 | |
| 14 | | | 2008 | 0.3842 | 9.90% | 3.80% | 19.44 | 20.72 | |
| 15 | | | 2009 | 0.3949 | 9.60% | 3.79% | 20.26 | 20.77 | |
| 16 | | AQUA AMERICA, INC. | [GROWTH 2005 - 2009 | | | 2.50% | 6.00% | | 3.09% |
| 17 | | | 2010 | 0.3834 | 9.00% | 3.45% | | 21.00 | 1.11% |
| 18 | | | 2011 | 0.4545 | 10.00% | 4.55% | | 22.00 | 2.92% |
| 19 | | | 2013-15 | 0.5358 | 11.00% | 5.89% | 4.00% | 23.50 | 2.50% |
| 20 | | | | | | | | | |
| 21 | WTR | | 2005 | 0.4366 | 11.20% | 4.89% | 6.30 | 128.97 | |
| 22 | | | 2006 | 0.3714 | 10.00% | 3.71% | 6.96 | 132.33 | |
| 23 | | | 2007 | 0.3239 | 9.70% | 3.14% | 7.32 | 133.40 | |
| 24 | | | 2008 | 0.3014 | 9.30% | 2.80% | 7.82 | 135.37 | |
| 25 | | | 2009 | 0.2857 | 9.40% | 2.69% | 8.12 | 136.49 | |
| 26 | | | [GROWTH 2005 - 2009 | | | 3.45% | 8.50% | | 1.43% |
| 27 | | | 2010 | 0.3444 | 11.00% | 3.79% | | 137.60 | 0.81% |
| 28 | | | 2011 | 0.3505 | 11.00% | 3.86% | | 138.10 | 0.59% |
| 29 | | | 2013-15 | 0.3478 | 12.00% | 4.17% | 4.00% | 139.60 | 0.45% |

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/21/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2005 - 2009

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH COMPONENTS

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (j) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|----------------------------------|--------------------|----------------------------|------------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1 | AGL | AGL RESOURCES, INC. | 2006 | 0.4559 | 13.20% | 6.02% | 20.71 | 77.70 | |
| 2 | | | 2007 | 0.3971 | 12.70% | 5.04% | 21.74 | 76.40 | |
| 3 | | | 2008 | 0.3801 | 12.60% | 4.79% | 21.48 | 76.90 | |
| 4 | | | 2009 | 0.4028 | 12.50% | 5.03% | 22.95 | 77.54 | |
| 5 | | | 2010 | 0.4133 | 12.90% | 5.33% | 23.24 | 78.00 | |
| 6 | | | GROWTH 2006 - 2010 | | | 5.24% | 5.50% | | 0.10% |
| 7 | | | 2011 | 0.4286 | 12.50% | 5.36% | | 78.20 | 0.26% |
| 8 | | | 2012 | 0.4424 | 12.50% | 5.53% | | 78.40 | 0.26% |
| 9 | | | 2014-16 | 0.4773 | 12.50% | 5.97% | 5.50% | 79.00 | 0.26% |
| 10 | ATO | ATMOS ENERGY CORP. | 2006 | 0.3700 | 9.80% | 3.63% | 20.16 | 81.74 | |
| 11 | | | 2007 | 0.3402 | 8.70% | 2.96% | 22.01 | 89.33 | |
| 12 | | | 2008 | 0.3500 | 8.80% | 3.08% | 22.60 | 90.81 | |
| 13 | | | 2009 | 0.3299 | 8.30% | 2.74% | 23.52 | 92.55 | |
| 14 | | | 2010 | 0.3796 | 9.20% | 3.49% | 24.16 | 90.16 | |
| 15 | | | GROWTH 2006 - 2010 | | | 3.18% | 5.00% | | 2.48% |
| 16 | | | 2011 | 0.4087 | 9.00% | 3.68% | | 91.00 | 0.93% |
| 17 | | | 2012 | 0.4250 | 8.50% | 3.61% | | 92.00 | 1.02% |
| 18 | | | 2014-16 | 0.4630 | 9.00% | 4.17% | 4.50% | 105.00 | 3.09% |
| 19 | | | | | | | | | |
| 20 | LG | LACLEDE GROUP, INC. | 2006 | 0.4093 | 12.50% | 5.12% | 18.85 | 21.36 | |
| 21 | | | 2007 | 0.3723 | 11.60% | 4.32% | 19.79 | 21.65 | |
| 22 | | | 2008 | 0.4356 | 11.80% | 5.14% | 22.12 | 21.99 | |
| 23 | | | 2009 | 0.4760 | 12.40% | 5.90% | 23.32 | 22.17 | |
| 24 | | | 2010 | 0.3539 | 10.10% | 3.57% | 24.02 | 22.29 | |
| 25 | | | GROWTH 2006 - 2010 | | | 4.81% | 7.00% | | 1.07% |
| 26 | | | 2011 | 0.3686 | 10.50% | 3.87% | | 22.50 | 0.94% |
| 27 | | | 2012 | 0.3774 | 10.50% | 3.96% | | 23.00 | 1.58% |
| 28 | | | 2014-16 | 0.4286 | 10.00% | 4.29% | 5.00% | 26.00 | 3.13% |
| 29 | | | | | | | | | |
| 30 | NJR | NEW JERSEY RESOURCES CORPORATION | 2006 | 0.4866 | 12.60% | 6.13% | 15.00 | 41.44 | |
| 31 | | | 2007 | 0.3484 | 10.10% | 3.52% | 15.50 | 41.61 | |
| 32 | | | 2008 | 0.5889 | 15.70% | 9.25% | 17.28 | 42.06 | |
| 33 | | | 2009 | 0.4833 | 14.60% | 7.06% | 16.59 | 41.59 | |
| 34 | | | 2010 | 0.4472 | 14.10% | 6.30% | 17.53 | 41.36 | |
| 35 | | | GROWTH 2006 - 2010 | | | 6.45% | 10.00% | | -0.05% |
| 36 | | | 2011 | 0.4566 | 14.50% | 6.62% | | 41.00 | -0.87% |
| 37 | | | 2012 | 0.4807 | 15.00% | 7.21% | | 40.00 | -1.66% |
| 38 | | | 2014-16 | 0.4921 | 13.50% | 6.64% | 5.50% | 40.00 | -0.67% |
| 39 | | | | | | | | | |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/11/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH COMPONENTS

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| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (c) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|-------------------------------|--------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------|------------------------------------|------------------------|
| 1 | NWN | NORTHWEST NATURAL GAS CO. | 2006 | 0.4085 | 10.90% | 4.45% | 22.01 | 27.24 | |
| 2 | | | 2007 | 0.4783 | 12.50% | 5.98% | 22.52 | 26.41 | |
| 3 | | | 2008 | 0.4086 | 10.90% | 4.45% | 23.71 | 26.50 | |
| 4 | | | 2009 | 0.4346 | 11.40% | 4.95% | 26.53 | 26.53 | |
| 5 | | | 2010 | 0.3846 | 10.50% | 4.04% | 25.95 | 26.67 | |
| 6 | | | GROWTH 2006 - 2010 | | | 4.78% | 4.00% | | -0.53% |
| 7 | | | 2011 | 0.3857 | 10.50% | 4.05% | | 26.75 | 0.30% |
| 8 | | | 2012 | 0.3931 | 10.50% | 4.13% | | 26.80 | 0.24% |
| 9 | | | 2014-16 | 0.4125 | 10.00% | 4.13% | | 26.95 | 0.21% |
| 10 | | | | | | | | | |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 2006 | 0.2578 | 11.00% | 2.84% | 11.83 | 74.81 | |
| 12 | | | 2007 | 0.2929 | 11.90% | 3.49% | 11.99 | 73.23 | |
| 13 | | | 2008 | 0.3087 | 12.40% | 3.83% | 12.11 | 73.26 | |
| 14 | | | 2009 | 0.3593 | 13.20% | 4.74% | 12.67 | 73.27 | |
| 15 | | | 2010 | 0.2839 | 11.60% | 3.29% | 13.35 | 72.28 | |
| 16 | | | GROWTH 2006 - 2010 | | | 3.64% | 3.50% | | -0.79% |
| 17 | | | 2011 | 0.2813 | 12.00% | 3.38% | | 71.50 | -1.08% |
| 18 | | | 2012 | 0.3000 | 12.00% | 3.60% | | 71.00 | -0.89% |
| 19 | | | 2014-16 | 0.3105 | 12.50% | 3.88% | | 69.00 | -0.92% |
| 20 | | | | | | | | | |
| 21 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2006 | 0.6260 | 16.30% | 10.20% | 15.11 | 29.33 | |
| 22 | | | 2007 | 0.5167 | 12.80% | 6.81% | 16.25 | 29.61 | |
| 23 | | | 2008 | 0.5110 | 13.10% | 6.69% | 17.33 | 29.73 | |
| 24 | | | 2009 | 0.4874 | 13.10% | 6.38% | 18.27 | 29.80 | |
| 25 | | | 2010 | 0.4963 | 14.20% | 7.05% | 19.08 | 29.87 | |
| 26 | | | GROWTH 2006 - 2010 | | | 7.39% | 9.00% | | 0.46% |
| 27 | | | 2011 | 0.4983 | 15.00% | 7.47% | | 31.00 | 3.78% |
| 28 | | | 2012 | 0.5077 | 16.50% | 8.38% | | 32.00 | 3.50% |
| 29 | | | 2014-16 | 0.5122 | 17.50% | 8.96% | | 34.00 | 2.62% |
| 30 | | | | | | | | | |
| 31 | SWX | SOUTHWEST GAS CORPORATION | 2006 | 0.5859 | 8.90% | 5.21% | 21.58 | 41.77 | |
| 32 | | | 2007 | 0.5590 | 8.50% | 4.75% | 22.98 | 42.81 | |
| 33 | | | 2008 | 0.3525 | 5.90% | 2.08% | 23.49 | 44.19 | |
| 34 | | | 2009 | 0.5103 | 7.90% | 4.03% | 24.44 | 45.09 | |
| 35 | | | 2010 | 0.5595 | 8.90% | 4.98% | 25.59 | 45.60 | |
| 36 | | | GROWTH 2006 - 2010 | | | 4.21% | 5.00% | | 2.22% |
| 37 | | | 2011 | 0.5435 | 9.00% | 4.89% | | 46.50 | 1.97% |
| 38 | | | 2012 | 0.5510 | 9.00% | 4.96% | | 48.00 | 2.60% |
| 39 | | | 2014-16 | 0.5690 | 9.00% | 5.12% | | 50.00 | 1.86% |

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/11/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH COMPONENTS

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| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (r) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|----------------------|--------------------|----------------------------|------------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1 | WGL | WGL HOLDINGS, INC. | 2006 | 0.3041 | 10.30% | 3.13% | 18.86 | 48.89 | |
| 2 | | | 2007 | 0.3445 | 10.30% | 3.55% | 19.83 | 49.45 | |
| 3 | | | 2008 | 0.4221 | 11.60% | 4.90% | 20.99 | 49.92 | |
| 4 | | | 2009 | 0.4190 | 11.60% | 4.86% | 21.89 | 50.14 | |
| 5 | | | 2010 | 0.3392 | 9.90% | 3.36% | 22.82 | 50.54 | |
| 6 | | | GROWTH 2006 - 2010 | | | 3.96% | 5.00% | | 0.83% |
| 7 | | | 2011 | 0.2714 | 9.00% | 2.44% | | 51.00 | 0.91% |
| 8 | | | 2012 | 0.3319 | 9.50% | 3.15% | | 51.00 | 0.45% |
| 9 | | | 2014-16 | 0.3778 | 10.00% | 3.78% | 4.00% | 52.00 | 0.57% |

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/11/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINE 6, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINE 6, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

WATER COMPANY SAMPLE:

| LINE NO. | STOCK SYMBOL | (A) | | (B) | | (C) | | (D) | | (E) | | (F) | |
|----------|--------------|-------------|--|-----------|--|--------------------------|-------|-------|-------------------------|-------|--------------------------|-------|-------------------------------|
| | | (br) + (sv) | | ZACKS EPS | | VALUE LINE PROJECTED DPS | BVPS | EPS | VALUE LINE HISTORIC DPS | BVPS | VALUE LINE & ZACKS AVGS. | EPS | 5 - YEAR COMPOUND HISTORY DPS |
| 1 | AVR | 6.91% | | 7.50% | | 4.00% | 3.50% | 8.50% | 2.50% | 5.00% | 5.71% | 5.25% | 2.92% |
| 2 | CWT | 6.68% | | 4.00% | | 1.00% | 3.50% | 6.50% | 1.00% | 6.00% | 3.82% | 7.32% | 0.87% |
| 3 | WTR | 4.66% | | 6.50% | | 6.50% | 4.00% | 5.00% | 8.00% | 8.50% | 6.57% | 2.05% | 8.29% |
| 4 | | | | | | 3.83% | 3.67% | 6.67% | 3.83% | 6.50% | | 4.87% | 4.03% |
| 5 | AVERAGES | 6.08% | | 6.00% | | 4.86% | | | 5.67% | | 5.37% | | 5.01% |

NATURAL GAS LDC SAMPLE:

| LINE NO. | STOCK SYMBOL | (A) | | (B) | | (C) | | (D) | | (E) | | (F) | |
|----------|--------------|-------------|--|-----------|--|--------------------------|-------|--------|-------------------------|--------|--------------------------|-------|-------------------------------|
| | | (br) + (sv) | | ZACKS EPS | | VALUE LINE PROJECTED DPS | BVPS | EPS | VALUE LINE HISTORIC DPS | BVPS | VALUE LINE & ZACKS AVGS. | EPS | 5 - YEAR COMPOUND HISTORY DPS |
| 1 | AGL | 5.66% | | 4.00% | | 2.00% | 5.50% | 4.50% | 7.50% | 5.50% | 4.79% | 2.48% | 4.43% |
| 2 | ATO | 4.10% | | 4.50% | | 2.00% | 4.50% | 4.00% | 1.50% | 5.00% | 3.79% | 1.94% | 1.55% |
| 3 | LG | 4.74% | | 3.00% | | 2.50% | 5.00% | 7.50% | 2.50% | 7.00% | 4.36% | 0.63% | 2.91% |
| 4 | NJR | 6.51% | | 4.00% | | 4.50% | 5.50% | 8.50% | 7.50% | 10.00% | 6.29% | 7.10% | 9.10% |
| 5 | NWN | 4.09% | | 4.40% | | 4.00% | 4.00% | 9.50% | 3.50% | 4.00% | 4.63% | 3.82% | 4.85% |
| 6 | PNY | 3.76% | | 4.50% | | 3.50% | 3.00% | 5.00% | 4.50% | 3.50% | 3.93% | 4.90% | 3.97% |
| 7 | SJI | 11.48% | | 6.50% | | 8.50% | 4.50% | 10.00% | 7.50% | 9.00% | 7.86% | 2.35% | 10.27% |
| 8 | SWX | 5.51% | | 6.00% | | 4.50% | 4.50% | 6.00% | 2.00% | 5.00% | 5.07% | 3.48% | 5.09% |
| 9 | WGL | 3.96% | | 5.30% | | 2.50% | 4.00% | 2.50% | 2.50% | 5.00% | 3.33% | 4.01% | 2.67% |
| 10 | | | | | | 3.78% | 4.50% | 6.39% | 4.33% | 6.00% | | 3.41% | 4.98% |
| 11 | AVERAGES | 5.52% | | 4.69% | | 4.28% | | | 5.57% | | 4.89% | | 4.29% |

REFERENCES:

COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/21/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/21/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 9 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/21/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)

BASED ON A GEOMETRIC MEAN:

| LINE NO. | STOCK SYMBOL | (A) | | | | | (B) | |
|----------|-------------------------|-----|---|----------------|---|---|-----|-----------------|
| | | k | = | r _f | + | [β x (r _m - r _f)] | = | EXPECTED RETURN |
| 1 | AWR | k | = | 2.13% | + | [0.80 x (9.80% - 5.30%)] | = | 5.73% |
| 2 | CWT | k | = | 2.13% | + | [0.70 x (9.80% - 5.30%)] | = | 5.28% |
| 3 | WTR | k | = | 2.13% | + | [0.65 x (9.80% - 5.30%)] | = | 5.05% |
| 4 | WATER COMPANY AVERAGE | | | | | <u>0.72</u> | | <u>5.35%</u> |
| 5 | AGL | k | = | 2.13% | + | [0.75 x (9.80% - 5.30%)] | = | 5.50% |
| 6 | ATO | k | = | 2.13% | + | [0.65 x (9.80% - 5.30%)] | = | 5.05% |
| 7 | LG | k | = | 2.13% | + | [0.60 x (9.80% - 5.30%)] | = | 4.83% |
| 8 | NJR | k | = | 2.13% | + | [0.65 x (9.80% - 5.30%)] | = | 5.05% |
| 9 | NWN | k | = | 2.13% | + | [0.60 x (9.80% - 5.30%)] | = | 4.83% |
| 10 | PNY | k | = | 2.13% | + | [0.65 x (9.80% - 5.30%)] | = | 5.05% |
| 11 | SJI | k | = | 2.13% | + | [0.65 x (9.80% - 5.30%)] | = | 5.05% |
| 12 | SWX | k | = | 2.13% | + | [0.75 x (9.80% - 5.30%)] | = | 5.50% |
| 14 | WGL | k | = | 2.13% | + | [0.65 x (9.80% - 5.30%)] | = | 5.05% |
| 15 | NATURAL GAS LDC AVERAGE | | | | | <u>0.66</u> | | <u>5.10%</u> |

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 01/21/2011 THROUGH 03/11/2011 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2009 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2010 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

| LINE NO. | STOCK SYMBOL | (A) | | | | | (B) EXPECTED RETURN |
|----------|-------------------------|-----|---|----------------|---|---|------------------------|
| | | k | = | r _f | + [β x (r _m - r _f)] | = | |
| 1 | AWR | k | = | 2.13% | + [0.80 x (11.80% - 5.50%)] | = | 7.17% |
| 2 | CWT | k | = | 2.13% | + [0.70 x (11.80% - 5.50%)] | = | 6.54% |
| 3 | WTR | k | = | 2.13% | + [0.65 x (11.80% - 5.50%)] | = | 6.22% |
| 4 | WATER COMPANY AVERAGE | | | | 0.72 | | 6.64% |
| 5 | AGL | k | = | 2.13% | + [0.75 x (11.80% - 5.50%)] | = | 6.85% |
| 6 | ATO | k | = | 2.13% | + [0.65 x (11.80% - 5.50%)] | = | 6.22% |
| 7 | LG | k | = | 2.13% | + [0.60 x (11.80% - 5.50%)] | = | 5.91% |
| 9 | NJR | k | = | 2.13% | + [0.65 x (11.80% - 5.50%)] | = | 6.22% |
| 10 | NWN | k | = | 2.13% | + [0.80 x (11.80% - 5.50%)] | = | 5.91% |
| 11 | PNY | k | = | 2.13% | + [0.65 x (11.80% - 5.50%)] | = | 6.22% |
| 12 | SJI | k | = | 2.13% | + [0.65 x (11.80% - 5.50%)] | = | 6.22% |
| 13 | SWX | k | = | 2.13% | + [0.75 x (11.80% - 5.50%)] | = | 6.85% |
| 14 | WGL | k | = | 2.13% | + [0.65 x (11.80% - 5.50%)] | = | 6.22% |
| 15 | NATURAL GAS LDC AVERAGE | | | | 0.66 | | 6.29% |

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS "SELECTION & OPINIONS" PUBLICATION FROM 01/21/2011 THROUGH 03/11/2011 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2009 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2010 YEARBOOK.

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-02500A-10-0382
SCHEDULE WAR - 8

| LINE NO. | YEAR | (A) CHANGE IN CPI | | (B) CHANGE IN GDP (1996 \$) | | (C) PRIME RATE | | (D) FED. DISC. RATE | | (E) FED. FUNDS RATE | | (F) 91-DAY T-BILLS | | (G) 30-YR T-BONDS | | (H) A-RATED UTIL. BOND YIELD | | (I) Baa-RATED UTIL. BOND YIELD | |
|----------|---------|-------------------------|--|--------------------------------------|--|----------------------|--|------------------------------|--|------------------------------|--|--------------------------|--|-------------------------|--|---------------------------------------|--|---|--|
| | | | | | | | | | | | | | | | | | | | |
| 1 | 1990 | 5.39% | | 1.90% | | 10.01% | | 6.98% | | 8.10% | | 7.50% | | 7.49% | | 9.86% | | 10.06% | |
| 2 | 1991 | 4.25% | | -0.20% | | 8.46% | | 5.45% | | 5.69% | | 5.38% | | 5.38% | | 9.36% | | 9.55% | |
| 3 | 1992 | 3.03% | | 3.30% | | 6.25% | | 3.25% | | 3.52% | | 3.43% | | 3.43% | | 8.69% | | 8.86% | |
| 4 | 1993 | 2.96% | | 2.70% | | 6.00% | | 3.00% | | 3.02% | | 3.00% | | 3.00% | | 7.59% | | 7.91% | |
| 5 | 1994 | 2.61% | | 4.00% | | 7.14% | | 3.60% | | 4.21% | | 4.25% | | 4.25% | | 8.31% | | 8.63% | |
| 6 | 1995 | 2.81% | | 2.50% | | 8.83% | | 5.21% | | 5.83% | | 5.49% | | 5.49% | | 7.89% | | 8.29% | |
| 7 | 1996 | 2.93% | | 3.70% | | 8.27% | | 5.02% | | 5.30% | | 5.01% | | 5.01% | | 7.76% | | 8.17% | |
| 8 | 1997 | 2.34% | | 4.50% | | 8.44% | | 5.00% | | 5.46% | | 5.06% | | 5.06% | | 7.60% | | 8.12% | |
| 9 | 1998 | 1.55% | | 4.20% | | 8.35% | | 4.92% | | 5.35% | | 4.78% | | 4.78% | | 7.04% | | 7.27% | |
| 10 | 1999 | 2.19% | | 4.50% | | 7.99% | | 4.62% | | 4.97% | | 4.64% | | 4.64% | | 7.62% | | 7.88% | |
| 11 | 2000 | 3.38% | | 3.70% | | 9.23% | | 5.73% | | 6.24% | | 5.82% | | 5.82% | | 8.24% | | 8.36% | |
| 12 | 2001 | 2.83% | | 0.80% | | 6.92% | | 3.41% | | 3.88% | | 3.40% | | 3.40% | | 7.59% | | 8.02% | |
| 13 | 2002 | 1.59% | | 1.60% | | 4.67% | | 1.17% | | 1.67% | | 1.61% | | 1.61% | | 7.41% | | 7.98% | |
| 14 | 2003 | 2.27% | | 2.50% | | 4.12% | | 2.03% | | 1.13% | | 1.01% | | 1.01% | | 6.18% | | 6.64% | |
| 15 | 2004 | 2.68% | | 3.60% | | 4.34% | | 2.34% | | 1.35% | | 1.37% | | 1.37% | | 5.77% | | 6.20% | |
| 16 | 2005 | 3.39% | | 2.90% | | 6.16% | | 4.19% | | 3.22% | | 3.15% | | 3.15% | | 5.38% | | 5.78% | |
| 17 | 2006 | 3.24% | | 2.80% | | 7.97% | | 5.96% | | 4.97% | | 4.73% | | 4.73% | | 5.94% | | 6.30% | |
| 18 | 2007 | 2.85% | | 2.90% | | 8.05% | | 5.86% | | 5.02% | | 4.36% | | 4.84% | | 6.07% | | 6.24% | |
| 19 | 2008 | 3.84% | | -6.80% | | 5.09% | | 2.39% | | 1.92% | | 1.37% | | 4.28% | | 6.34% | | 6.64% | |
| 20 | 2009 | -0.36% | | 5.00% | | 3.25% | | 0.50% | | 0.00% - 0.25% | | 0.15% | | 4.08% | | 5.84% | | 6.87% | |
| 21 | 2010 | 1.64% | | 2.80% | | 3.25% | | 0.72% | | 0.00% - 0.25% | | 0.13% | | 4.25% | | 5.50% | | 5.98% | |
| 22 | CURRENT | 1.63% | | 2.80% | | 3.25% | | 0.75% | | 0.00% - 0.25% | | 0.12% | | 4.56% | | 5.69% | | 6.08% | |

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/11/2011
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 03/11/2011

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

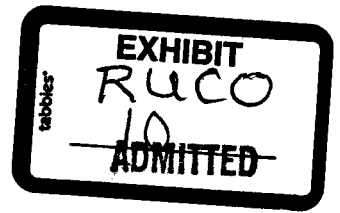
| LINE NO. | AMR | PCT. | CWT | PCT. | WTR | PCT. | WATER COMPANY AVERAGE | PCT. |
|-------------------|----------|-------|----------|-------|------------|-------|-----------------------|-------|
| 1 DEBT | \$ 299.8 | 44.3% | \$ 479.2 | 52.4% | \$ 1,532.0 | 56.6% | \$ 770.3 | 53.8% |
| 2 | | | | | | | | |
| 3 PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | - | 0.0% |
| 4 | | | | | | | | |
| 5 COMMON EQUITY | 377.5 | 55.7% | 435.5 | 47.6% | 1,174.3 | 43.4% | 862.4 | 46.2% |
| 6 | | | | | | | | |
| 7 TOTALS | \$ 677.4 | 100% | \$ 914.7 | 100% | \$ 2,706.2 | 100% | \$ 1,432.8 | 100% |

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

| LINE NO. | AGL | PCT. | ATO | PCT. | LG | PCT. | NJR | PCT. | NWN | PCT. |
|--------------------|------------|-------|------------|-------|------------|-------|------------|-------|------------|-------|
| 1 | | | | | | | | | | |
| 2 | | | | | | | | | | |
| 3 DEBT | \$ 1,673.0 | 47.7% | \$ 1,809.6 | 45.4% | \$ 364.3 | 47.0% | \$ 428.9 | 37.2% | \$ 591.7 | 46.1% |
| 4 | | | | | | | | | | |
| 5 PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% |
| 6 | | | | | | | | | | |
| 7 COMMON EQUITY | 1,836.0 | 52.3% | 2,178.3 | 54.6% | 411.3 | 53.0% | 725.5 | 62.8% | 693.1 | 53.9% |
| 8 | | | | | | | | | | |
| 9 TOTALS | \$ 3,509.0 | 100% | \$ 3,987.9 | 100% | \$ 775.6 | 100% | \$ 1,154.4 | 100% | \$ 1,284.8 | 100% |
| 10 | | | | | | | | | | |
| 11 | | | | | | | | | | |
| 12 | | | | | | | | | | |
| 13 | | | | | | | | | | |
| 14 | | | | | | | | | | |
| 15 DEBT | \$ 671.9 | 41.0% | \$ 340.0 | 37.4% | \$ 1,169.4 | 49.3% | \$ 592.9 | 33.4% | \$ 849.1 | 43.9% |
| 16 | | | | | | | | | | |
| 17 PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 100.0 | 4.2% | 28.2 | 1.6% | 14.2 | 0.7% |
| 18 | | | | | | | | | | |
| 19 COMMON EQUITY | 964.9 | 59.0% | 570.1 | 62.6% | 1,102.1 | 48.5% | 1,153.4 | 65.0% | 1,070.5 | 55.4% |
| 20 | | | | | | | | | | |
| 21 TOTALS | \$ 1,636.9 | 100% | \$ 910.1 | 100% | \$ 2,371.4 | 100% | \$ 1,774.4 | 100% | \$ 1,933.8 | 100% |
| 22 | | | | | | | | | | |
| 23 | | | | | | | | | | |
| 24 | | | | | | | | | | |
| 25 | | | | | | | | | | |
| 26 | | | | | | | | | | |
| 27 DEBT | \$ 809.7 | 48.1% | | | | | | | | |
| 28 | | | | | | | | | | |
| 29 PREFERRED STOCK | 7.1 | 0.4% | | | | | | | | |
| 30 | | | | | | | | | | |
| 31 COMMON EQUITY | 866.5 | 51.5% | | | | | | | | |
| 32 | | | | | | | | | | |
| 33 TOTALS | \$ 1,683.3 | 100% | | | | | | | | |

REFERENCE:

GOODMAN WATER COMPANY



DOCKET NO. W-02500A-10-0382

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 13, 2011

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1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Have you filed any prior testimony in this case on behalf of RUCO?

8 A. Yes, on March 21, 2011, I filed direct testimony with the Commission on
9 RUCO's cost of capital recommendations for GWC.

10

11 Q. Please state the purpose of your surrebuttal testimony.

12 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
13 testimony of GWC witnesses Thomas J. Bourassa, which was filed on
14 May 2, 2011.

15

16 Q. Will RUCO be filing surrebuttal testimony on the rate base, operating
17 income and rate design issues in this case?

18 A. Yes. RUCO analyst Timothy J. Coley will file surrebuttal testimony on the
19 rate base, operating income and rate design issues in this case.

20

21 Q. How is your surrebuttal testimony organized?

22 A. My surrebuttal testimony contains five parts: the introduction that I have
23 just presented; a summary of RUCO's recommendations; a comparison of

1 the proposals and recommendations of the Company, ACC Staff and
2 RUCO; a summary of the Company's rebuttal testimony; and my response
3 to the Company's rebuttal positions.
4

5 **SUMMARY OF RECOMMENDATIONS**

6 Q. Please summarize RUCO's capital structure, cost of debt and weighted
7 average cost of capital recommendations for GWC.

8 A. RUCO continues to recommend a hypothetical capital structure comprised
9 of 60.00 percent common equity and 40.00 percent debt. RUCO also
10 continues to recommend a cost of common equity of 9.00 percent and a
11 hypothetical cost of debt of 6.13 percent which will provide GWC with a
12 weighted average cost of capital of 7.85 percent.
13

14 **COMPARISON OF PROPOSALS AND RECOMMENDATIONS**

15 **Capital Structure**

16 Q. Please compare the Company-proposed capital structure with RUCO and
17 ACC Staff's recommended capital structures.

18 A. A comparison of the Company's ACC Staff's, and RUCO's recommended
19 capital structures are as follows:
20
21
22
23

| | | <u>Debt</u> | <u>Equity</u> |
|---|-----------|-------------|---------------|
| 1 | | | |
| 2 | Company | 18.4% | 81.6% |
| 3 | ACC Staff | 18.4% | 81.6% |
| 4 | RUCO | 40.0% | 60.0% |

5

6 **Cost of Debt**

7 Q. Please compare the Company-proposed cost of debt with RUCO and
8 ACC Staff's recommended costs of debt.

9 A. The Company-proposed cost of debt and ACC Staff's and RUCO's
10 recommended hypothetical cost of debt can be seen below:

11

| | | |
|----|-----------|-------|
| 12 | Company | 8.00% |
| 13 | ACC Staff | 8.00% |
| 14 | RUCO | 6.13% |

15

16 **Cost of Equity**

17 Q. Please compare the Company-proposed cost of equity with RUCO's and
18 ACC Staff's recommended costs of equity.

19 A. The revised Company-proposed cost of equity and ACC Staff's and
20 RUCO's recommended cost of equity, are as follows:

21

22

23

| | | |
|---|-----------|--------|
| 1 | Company | 10.20% |
| 2 | ACC Staff | 9.10% |
| 3 | RUCO | 9.00% |

4

5 **Weighted Average Cost of Capital**

6 Q. Please compare the Company-proposed weighted average cost of capital
7 with RUCO's and ACC Staff's recommended weighted average cost of
8 capital.

9 A. The weighted average cost of capital recommendations of the Company,
10 ACC Staff and RUCO are as follows:

11

| | | |
|----|-----------|-------|
| 12 | Company | 9.89% |
| 13 | ACC Staff | 9.00% |
| 14 | RUCO | 7.85% |

15

16 As can be seen above, the Company-proposed weighted average cost of
17 capital of 9.89 percent is 204 basis points higher than my recommended
18 7.85 percent weighted average cost of capital. ACC Staff's recommended
19 weighted average cost of capital is 89 basis points lower than the
20 Company's and 115 basis points higher than my recommendation.

21

22

23

SUMMARY OF REBUTTAL TESTIMONY

Q. Have you reviewed the Company's rebuttal testimony?

A. Yes. I have reviewed the rebuttal testimony of Company witness Thomas J. Bourassa, filed on May 2, 2011, which addresses the cost of capital issues in this case.

Q. Please summarize the Company's rebuttal testimony.

A. Company witness Bourassa is critical of the utilities used in my proxy groups and the CAPM analysis that I conducted in order to arrive at my recommended cost of common equity in this case. Mr. Bourassa also takes issue with the growth estimates that I used in my DCF analysis. Mr. Bourassa further argues that my analysis does not take GWC's size into consideration. He is also critical of my recommended cost of debt and my recommended hypothetical capital structure.

RESPONSE TO REBUTTAL TESTIMONY

Q. Have you had an opportunity to review updated data on the sample water and natural gas companies used in your cost of capital analysis?

A. I have reviewed more recent SBBI Yearbook and Value Line data on the water utility industry that has been made available or published since my direct testimony was filed. Using this recent information, I have updated my original cost of capital analysis and have included it in my surrebuttal testimony.

1 Q. Have you made any changes to your water company sample based on the
2 updated Value Line information?

3 A. Yes. My updated water company sample now includes SJW Corporation
4 (NYSE symbol SJW), a San Jose, California-based water provider which,
5 prior to April of 2011, was included in Value Line's Small and Mid-Cap
6 Edition. SJW serves approximately 226,000 customers in the San Jose
7 area and approximately 8,700 customers in a region located between
8 Austin and San Antonio, Texas.

9
10 Q. Does your updated analysis include more recent information on the
11 natural gas LDC's that you included in your original cost of capital
12 analysis?

13 A. Yes and no. My updated analysis includes more recent adjusted closing
14 stock price information on the sample LDC's, however, the next Value
15 Line quarterly update on the natural gas utility industry will not be available
16 until the week of June 6, 2011. Because of RUCO's workload schedule
17 for that week, I will not be able to update the LDC information presented in
18 my GWC surrebuttal schedules. Since I will be performing a full LDC
19 update in two other rate cases during the week of July 6, 2011, I will
20 present the LDC results presented in those cases during the GWC
21 evidentiary hearing that has now been scheduled for July 26, 2011.
22 However, I think it is fair to say that, at this point in time, I do not expect
23 any major changes to my current recommendation.

1 Q. Has Mr. Bourassa made any changes to his recommended cost of equity
2 capital?

3 A. Yes. Mr. Bourassa has decreased his original recommended cost of
4 common equity from 11.00 percent to the 10.20 percent cost of common
5 equity displayed in the prior section of my testimony.

6

7 Q. Has there been any recent Federal Reserve activity in regard to interest
8 rates?

9 A. Yes. During its most recent FOMC meeting on April 26 and 27, 2011, the
10 Federal Reserve decided not to increase or decrease the federal funds
11 rate and kept it between zero and 0.25 percent. In a press release dated
12 April 27, 2011, the Fed stated that the FOMC "will continue to maintain the
13 target range for the federal funds rate at 0 to ¼ percent and continues to
14 anticipate that economic conditions, including low rates of resource
15 utilization, subdued inflation trends, and stable inflation expectations, are
16 likely to warrant exceptionally low levels for the federal funds rate for an
17 extended period." When asked to define the Fed's statement about an
18 "extended period" for maintaining interest rates during the first-ever press
19 conference held after an FOMC meeting, Federal Reserve Chairman Ben
20 Bernanke stated that the Fed likely wouldn't act on rates until a "couple of
21 meetings" after that language had been removed.¹ Based on the Fed's
22 press release and Chairman Bernanke's statement, it would appear that

¹ Reddy, Sudeep, "The Chairman Makes History, but Little News," The Wall Street Journal, April 28, 2011.

1 the Fed will continue to maintain the current level of low interest rates for
2 the foreseeable future. The next FOMC meeting is scheduled for June 21
3 and 22, 2011.

4
5 Q. Please respond to Mr. Bourassa's accusations that you use a "wolf in
6 sheep's clothing" approach and "sleight of hand" to manipulate your cost
7 of capital data in order to achieve "results oriented" recommendations.

8 A. Although I expected Mr. Bourassa to object to a hypothetical capital
9 structure, I am disappointed with the unprofessional tenor of his testimony.
10 The use of a hypothetical capital structure to correct a grossly unbalanced
11 debt/equity ratio is a legitimate proposal well grounded in sound public
12 policy. Furthermore, the Commission has adopted hypothetical capital
13 structures in the past when calculating the cost of capital. Using
14 pejorative terms such as those used by Mr. Bourassa is not appropriate
15 for the Commission's litigation arena.

16
17 Q. Can you cite any Decisions in which the Commission adopted hypothetical
18 capital structures?

19 A. The main Decisions that come to mind are Decision No. 67454, dated
20 January 4, 2005, that adopted a hypothetical capital structure for Tucson
21 Electric Power; Decision No. 68487, dated February 23, 2006, which was
22 a Southwest Gas Corporation Rate case proceeding; and Decision No.
23 69440, dated May 1, 2007, which involved Arizona-American Water

Company. A more recent rate case was Rio Rico Utilities, Inc. in which the utility agreed to a hypothetical capital structure that was adopted by the Commission in Decision No. 72059, dated January 6, 2011.

Q. Can you provide a comparison of costs of equity that have been adopted by the ACC in recent rate cases versus what Mr. Bourassa and you have recommended?

A. Yes. The following is a comparison of costs of equity that have been adopted by the ACC in recent rate cases² versus what Mr. Bourassa and I have recommended:

| <u>Utility</u> | <u>Dec. No.</u> | <u>Adopted</u> | <u>Bourassa</u> | <u>Rigsby</u> |
|-----------------------------|-----------------|----------------|-----------------|---------------|
| Black Mountain Sewer Corp. | 71865 | 10.20% | 12.40% | 8.22% |
| Litchfield Park Service Co. | 72026 | 8.01% | 12.00% | 9.00% |
| Rio Rico Utilities, Inc. | 72059 | 9.50% | 11.70% | 9.00% |
| Bella Vista Water Company | 72251 | 9.50% | 10.90% | 9.00% |

A brief review of the information displayed above illustrates that Mr. Bourassa's past recommendations clearly exceeded what the Commission has determined to be an appropriate rate of return for regulated water utilities. I would also point out that in each of these cases, with the exception of Black Mountain Sewer Corporation, my final cost of equity

² I would point out that in the Litchfield Park Service Company proceeding, the Commission adopted the 8.01 percent cost of common equity that I had originally recommended in my direct testimony (I increased my recommendation to 9.00 percent during the rebuttal phase of the proceeding for the same reasons I am relying on in this case).

1 recommendations were higher than the averages of my DCF and CAPM
2 results which supported costs of equity of around 8.00 percent. As can be
3 seen from these prior decisions, the Commission has authorized costs of
4 equity that are closer to my recommendations than those of Mr. Bourassa.

5
6 Q. Has the ACC adopted your recommended costs of equity capital or
7 adopted costs of equity capital that were influenced by your
8 recommendations in cases that Mr. Bourassa was not involved in?

9 A. Yes. Those cases were as follows:

10
11

| <u>Utility</u> | <u>Dec. No.</u> | <u>Adopted</u> | <u>Company</u> | <u>Rigsby</u> |
|--------------------------|-----------------|----------------|----------------|---------------|
| 12 UNS Gas, Inc. | 71623 | 9.50% | 11.00% | 8.61% |
| 13 Arizona Water Company | 71845 | 9.50% | 12.40% | 8.33% |
| 14 Global Utilities | 71878 | 9.00% | 10.00% | 9.00% |
| 15 UNS Electric Inc. | 71914 | 9.75% | 11.40% | 9.25% |
| 16 Arizona-American | 72047 | 9.50% | 10.70% | 9.50% |

17
18 Q. Have you revised your recommended cost of common equity based on
19 either your updated cost of capital analysis or the positions taken by Mr.
20 Bourassa in his rebuttal testimony?

21 A. No I have not. I am continuing to recommend a 9.00 percent cost of
22 common equity for GWC even though the average of my DCF and CAPM
23 results support a lower figure.

1 Q. Why do you stand by your position that your recommended 9.00 percent
2 cost of common equity is reasonable given the fact that the results of your
3 cost of capital analysis support a lower figure?

4 A. Despite the fact that the Federal Reserve has stated that it will continue to
5 maintain the current level of low interest rates for the foreseeable future,
6 my 9.00 percent return on common equity takes into consideration the
7 possibility that interest rates will increase at some future point in time.
8 Absent that possibility, a lower cost of common equity, such as the one
9 adopted by the Commission in the recent Litchfield Park Service Company
10 rate case, would certainly be appropriate should the Commission wish to
11 adopt it. Furthermore, as I explained in my direct testimony, my
12 recommended ROE of 9.00 percent is much higher than the 7.52 percent
13 ROE that results from my models.

14
15 Q. Are there other reasons, besides the possibility of interest rates increasing
16 in the future, that explain why you believe a 9.00 percent cost of common
17 equity is reasonable?

18 A. Yes. When the downturn in the economy occurred in late 2008, investors
19 reacted to the situation by pulling their funds out of the equity markets and
20 putting them into U.S. Treasury instruments which were, and still are,
21 yielding next to nothing (Attachment F), in order to avoid any further loss
22 of capital. This situation has been referred to as a "flight to quality."
23 Although fears have subsided in recent years and investors are entering

1 the equity markets again, as evidenced by the upturn in the U.S. stock
2 market, both water and natural gas utilities are still, for the most part,
3 viewed by Value Line's analysts as shelters during times of economic
4 uncertainty. This is mainly because of their healthy dividend yields which
5 range from averages of 3.05 percent to 3.71 percent, for the water and
6 natural gas industry respectively , compared with a median average of 1.9
7 percent for all the dividend paying stocks followed by Value Line. This
8 was pointed out in a recent piece³ that appeared in The Wall Street
9 Journal (Exhibit 1) which stated the following:

10
11 "Utility stocks are coveted by conservative investors for
12 their high dividend payments and the companies' fairly
13 stable cash flows. The downside is that investors tend
14 to move out of them into hotter sectors when the
15 economic outlook improves. That can make their
16 performance choppy."
17

18 Given the uncertainty of the economic recovery that is still under way, I
19 believe that both water and natural gas companies will still hold an
20 attraction for investors as a relatively safe investment in the event that
21 another downturn occurs. For these reasons I believe my recommended
22 9.00 percent cost of equity, which is higher than what my DCF and CAPM
23 results indicate, is reasonable.

24
25 ...
26

³ "Utilities," The Wall Street Journal, May 10, 2011.

1 Q. Are there other reasons you can cite as to why you think that higher
2 returns are not needed to attract investors?

3 A. Yes. One has to take into consideration that the investment community at
4 large is well aware of the fact that regulated utilities are different from non-
5 regulated entities in terms of how they recover their costs. This
6 information is taken into account when institutions and individual investors
7 make their decisions on where to place their funds. The best example of
8 this can be seen in an MSN Money/CNBC article⁴ authored by Jon D.
9 Markman, a weekly columnist for CNBC (Attachment D). In his article, Mr.
10 Markman pitched his suggestions for investing in what some believe to be
11 a coming global water shortage. In regard to domestic utilities, Markman
12 had this to say:

13
14 "Virtually all of the U.S. water utility stocks are regulated
15 by states and counties, which makes them pretty dull.
16 Governmental entities typically give utilities a monopoly
17 in a geographic region, then set their profit margin a
18 smidge above costs. Just about the only distinguishing
19 factor among them are the growth rates of their regions
20 and their ability to efficiently manage their underground
21 pipe and pumping infrastructure."
22

23
24
25 ...
26

⁴ Markman, Jon D, "Invest in the Coming Global Water Shortage," MSN.com, January 12, 2005, <http://moneycentral.msn.com/content/P102152.asp>.

1 Q. What is your response to Mr. Bourassa's statements, on page 13 of his
2 rebuttal testimony that GWC's cost of equity should be higher given the
3 fact that a prior Commission decision authorized Sahuarita Water
4 Company an equity return of 10.3 percent?

5 A. RUCO was not an intervenor in that case and I did not testify in it so I do
6 not have any first-hand knowledge of that particular proceeding. However,
7 I will say that the cost of capital for a utility, just as other ratemaking
8 element issues, is typically considered on a case-by-case basis – not to
9 mention the fact that the various inputs used in the models employed to
10 determine the cost of equity are not static. While it is true that the
11 Commission adopted the aforementioned cost of common equity figure for
12 Sahuarita Water Company based on ACC Staff's recommendations, it
13 doesn't mean that the same cost of equity figure will be derived from more
14 recent economic data in this case. Mr. Bourassa himself admits that the
15 cost of equity capital has fallen since he filed direct testimony in this case
16 and has lowered his original cost of equity recommendation from 11.00
17 percent to 10.20 percent. However, his recommendation is still 110 to 120
18 basis points higher than the 9.10 percent and 9.00 percent recommended
19 by ACC Staff witness Mr. Manrique and myself respectively.

20

21

22 ...

23

1 Q. Please respond to Mr. Bourassa's position that your recommended cost of
2 capital does not take firm size or company specific risk into account.

3 A. My cost of equity recommendation was derived from publicly traded
4 companies that are, for all practical purposes, a collection of water
5 systems that are similar to GWC and face the same types of risk that are
6 faced by GWC. This being the case my cost of equity recommendation
7 takes GWC's size and risk characteristics into account. I would also add
8 that any firm specific risks would be mitigated by my capital structure
9 recommendation which is comprised of 60 percent common equity as
10 opposed to my sample companies' lower average of approximately 50
11 percent common equity.

12

13 **Sample Utilities**

14 Q. Do you still believe that your use of a sample of natural gas LDC's is
15 appropriate to estimate a cost of equity for a water utility despite Mr.
16 Bourassa's arguments?

17 A. Yes.

18

19 Q. Please explain why you believe it is appropriate to use a sample group of
20 natural gas LDC's to estimate the cost of equity capital in a water utility
21 rate case proceeding.

22 A. For the most part, natural gas LDC's have very similar operating
23 and distribution characteristics with water companies such as GWC

1 therefore a good proxy for water and wastewater utility cost of capital
2 studies. Their inclusion also provides a larger sample to obtain an
3 estimate from.

4
5 Q. Have other analysts used natural gas LDC's as proxies in water utility rate
6 case proceedings before the ACC?

7 A. Yes, in the Arizona-American Water Company (Arizona-American) rate
8 case⁵ that is now pending before the Commission, the cost of capital
9 witness for Arizona-American also relied on a sample group of natural gas
10 LDC's.

11
12 Q. Do you believe that an upward adjustment is needed for your
13 recommended cost of equity given your use of a sample group of LDC's
14 that have a lower average beta than the one calculated for your sample
15 group of water utilities?

16 A. No. The point of using a sample of natural gas LDC's, which have similar
17 operating characteristics to water utilities, is to obtain a broader sample.

18
19 Q. Would your recommendation change if you were to remove the natural
20 gas LDC's from your proxy group?

21 A, No. A review of my DCF and CAPM results on page 3 of my Surrebuttal
22 Schedule WAR 1 shows that while my CAPM results for water utilities are

⁵ Docket No. W-01303A-10-0448

1 somewhat higher than the results for LDC's, my DCF results for LDC's are
2 lower than the results for water utilities.

3

4 **CAPM Analysis**

5 Q. Please respond to Mr. Bourassa's criticism of your reliance on geometric
6 means in the CAPM model.

7 A. As I stated in my direct testimony there is an on-going debate over which
8 is the better average to rely on. However, it is important to recognize that
9 the information on both the geometric and arithmetic means, published by
10 Morningstar, is widely available to the investment community. For this
11 reason I believe that the use of both means in a CAPM analysis is
12 appropriate.

13 The best argument in favor of the geometric mean is that it provides a
14 truer picture of the effects of compounding on the value of an investment
15 when return variability exists. This is particularly relevant in the case of
16 the return on the stock market, which has had its share of ups and downs
17 over the 1926 to 2010 observation period used in my updated CAPM
18 analysis.

19

20 Q. Can you provide an example to illustrate the differences between the two
21 averages?

22 A. Yes. The following example may help. Suppose you invest \$100 and
23 realize a 20.0 percent return over the course of a year. So at the end of

1 year 1, your original \$100 investment is now worth \$120. Now let's say
2 that over the course of a second year you are not as fortunate and the
3 value of your investment falls by 20.0 percent. As a result of this, the
4 \$120 value of your original \$100 investment falls to \$96. An arithmetic
5 mean of the return on your investment over the two-year period is zero
6 percent calculated as follows:

7
8
$$(\text{year 1 return} + \text{year 2 return}) \div \text{number of periods} =$$

9
$$(20.0\% + -20.0\%) \div 2 =$$

10
$$(0.0\%) \div 2 = \underline{0.0\%}$$

11 The arithmetic mean calculated above would lead you to believe that you
12 didn't gain or lose anything over the two-year investment period and that
13 your original \$100 investment is still worth \$100. But in reality, your
14 original \$100 investment is only worth \$96. A geometric mean on the
15 other hand calculates a compound return of negative 2.02 percent as
16 follows:

17
$$(\text{year 2 value} \div \text{original value})^{1/\text{number of periods}} - 1 =$$

18
$$(\$96 \div \$100)^{1/2} - 1 =$$

19
$$(0.96)^{1/2} - 1 =$$

20
$$(0.9798) - 1 =$$

21
$$-0.0202 = \underline{-2.02\%}$$

1 The geometric mean calculation illustrated above provides a truer picture
2 of what happened to your original \$100 over the two-year investment
3 period.

4 As can be seen in the preceding example, in a situation where return
5 variability exists, a geometric mean will always be lower than an arithmetic
6 mean, which probably explains why utility consultants typically put up a
7 strenuous argument against the use of a geometric mean.

8
9 Q. Has the Commission authorized rates of return that were derived through
10 the use of both arithmetic and geometric means in prior decisions?

11 A. Yes. Two specific cases that come to mind involved UNS Gas Inc.
12 ("UNSG"). Decision No. 70011, dated November 27, 2007 stated the
13 following:

14 "We agree with the Staff and RUCO witnesses that it is
15 appropriate to consider the geometric returns in
16 calculating a comparable company CAPM because to do
17 otherwise would fail to give recognition to the fact that
18 many investors have access to such information for
19 purposes of making investment decisions."
20

21 The Commission later reaffirmed this position in the most recent UNSG
22 case. Decision No. 71623, dated April 14, 2010 stated the following:

23 "We also continue to believe, consistent with our findings
24 in several prior cases, that it is appropriate to consider
25 the geometric returns in calculating a comparable
26 company CAPM because to do otherwise would fail to
27 give recognition to the fact that many investors have
28 access to such information for purposes of making
29 investment decisions."
30

1 In both UNSG cases, the ACC Staff witness was Mr. David C. Parcell,
2 who, as I do, consistently relies on both arithmetic and geometric means
3 in our CAPM analyses.

4
5 Q. Can you cite any other evidence that supports your use of both a
6 geometric and an arithmetic mean?

7 A. Yes. In the third edition of their book, Valuation: Measuring and Managing
8 the Value of Companies, authors Tom Copeland, Tim Koller and Jack
9 Murrin ("CKM") make the point that, while the arithmetic mean has been
10 regarded as being more forward-looking in determining market risk
11 premiums, a true market risk premium may lie somewhere between the
12 arithmetic and geometric averages published in Morningstar's SBI
13 yearbook (Exhibit 2).

14 Q. Please explain.

15 A. In order to believe that the results produced by the arithmetic mean are
16 appropriate, you have to believe that each return possibility included in the
17 calculation is an independent draw. However research conducted by
18 CKM demonstrates that year-to-year returns are not independent and are
19 actually auto correlated (i.e. a relationship that exists between two or more
20 returns, such that when one return changes, the other, or others, also
21 change), meaning that the arithmetic mean has less credence. CKM also
22 explains two other factors that would make the Morningstar arithmetic
23 mean too high. The first factor deals with the holding period. The

1 arithmetic mean depends on the length of the holding period and there is
2 no "law" that says that holding periods of one year are the "correct"
3 measure. When longer periods (e.g. 2 years, 3 years etc.) are observed,
4 the arithmetic mean drops about 100 basis points. The second factor
5 deals with a situation known as survivor bias. According to CKM, this is a
6 well-documented problem with the Morningstar historical return series in
7 that it only measures the returns of successful firms. That is, those firms
8 that are listed on stock exchanges. The Morningstar historical return
9 series does not measure the failures, of which there are many. Therefore,
10 the return expectations in the future are likely to be lower than the
11 Morningstar historical averages. After conducting their analysis, CKM
12 conclude that 4.0 percent to 5.5 percent is a reasonable forward-looking
13 market risk premium⁶. Adding my 2.36 percent risk free yield on a 5-year
14 Treasury instrument to these two estimates indicate a cost of equity of
15 6.36 percent to 7.86 percent which is lower than my recommended cost of
16 equity of 9.00 percent. Given the fact that utilities generally exhibit less
17 risk than industrials, a return in the low end of this range could be
18 considered reasonable.

19
20
21 ...
22

⁶ In the 4th edition of Valuation, the authors state on page 306 of the text that 4.5 percent to 5.5 percent is an appropriate range (Attachment E).

1 Q. Is Mr. Bourassa correct in his assertion that you did not use the
2 appropriate inputs to calculate a market risk premium in your CAPM
3 model?

4 A. No. Despite Mr. Bourassa's assertion, I have used an appropriate
5 Treasury instrument to calculate the risk premium in my CAPM model.
6 The risk premium that I have calculated has also been calculated in the
7 same manner by both ACC Staff and other cost of capital witnesses
8 whose cost of capital recommendations have been adopted by the
9 Commission. Mr. Bourassa's assertion that I should not have used total
10 returns in the market risk premium component of the CAPM is unfounded.
11 While it is true that investors are typically attracted to utility stocks for their
12 income needs, it is simply not rational to think that they would not expect
13 some capital gains as well. The use of income returns totally ignores the
14 fact that bond prices do indeed fluctuate as a result of interest rate
15 changes – as do interest sensitive utility stock prices. For this reason I
16 believe Mr. Bourassa's reliance on income returns is unrealistic at best.

17
18 Q. Please address Mr. Bourassa's criticism of your use of a 5-year Treasury
19 yields and intermediate-term securities in your CAPM analysis.

20 A. Mr. Bourassa believes that long-term treasury instruments, with higher
21 yields, should be used in the CAPM. However, utilities do not apply for
22 rate relief every thirty years and regulators do not set rates for thirty-year
23 periods. The simple fact is that utilities generally apply for rate relief every

1 three to five years and utility investors are aware of this fact. For this
2 reason I believe the use of long-term treasury yields overstate the cost of
3 equity capital.

4

5 Q. What is the current yield on a 5-year Treasury instrument?

6 A. The current yield on a 5-year Treasury instrument is 1.85 percent
7 (Attachment F) which is 28 basis points lower than the 2.13 percent 8-
8 week average yield that I used in my direct testimony CAPM analysis, and
9 23 basis points lower than the 2.08 percent 8-week average yield that I
10 used in my updated CAPM analysis that can be seen on Pages 1 and 2 of
11 my Surrebuttal Schedule WAR-7.

12

13 Q. Please comment on Mr. Bourassa's argument that you have ignored the
14 current risk premium?

15 A. The fact that we are now experiencing an improving economy and a
16 resurgence in the equity markets pretty much makes this argument passé.
17 As I have argued in prior cases, the historical market risk premium that I
18 have relied on takes into account a wide range of economic conditions
19 from 1926 through 2010. In short, the economy is slowly getting back to
20 normal and there is no good reason to believe that the excessive market
21 risk premium of 13.40 percent that Mr. Bourassa is proposing is realistic
22 for setting rates in this case. As I stated earlier, the analysis conducted by

1 CKM concluded that 4.0 percent to 5.5 percent is a reasonable forward-
2 looking market risk premium.

3
4 Q. Can you name any other sources that support CKM's conclusion that 4.0
5 percent to 5.5 percent is a reasonable market risk premium on a forward-
6 looking basis?

7 A. Yes. During the 39th annual Financial Forum of the Society of Utility and
8 Regulatory Financial Analysts, which was held at Georgetown University
9 in Washington D.C. on April 19 and 20, 2007, I had the opportunity to hear
10 the views of Aswarth Damodaran, Ph. D. and Felicia C. Marston, Ph. D.,
11 professors of finance from New York University and the University of
12 Virginia respectively, who have conducted empirical research on this
13 subject. Dr. Damodaran and Dr. Marston supported CKM's 4.0 to 5.5
14 percent estimates during a panel discussion that provided both professors
15 with the opportunity to explain their research on the equity risk premium
16 and to answer questions from other financial analysts in attendance. Each
17 of the panelists⁷ stated that they believed that a reasonable market risk
18 premium fell between 4.0 percent and 5.0 percent when asked to provide
19 estimates based on their research.

20

⁷ Other analysts taking part in the panel discussion included Stephen G. Hill, CRRA, Principal, Hill Associates and moderator Farris M. Maddox, Principal Financial Analyst, Virginia State Corporation Commission.

1 Q. If market risk premiums of 4.0 percent to 5.0 percent were used in your
2 updated CAPM model what would the results be?

3 A. Using market risk premiums ($r_m - r_f$) of 4.0 percent to 5.0 percent in my
4 updated CAPM model, using a proxy of water companies, produces the
5 following expected returns (k):
6

7 Water Company Sample using 4.0 percent

8
$$k = r_f + [\beta (r_m - r_f)]$$

9
$$k = 2.08\% + [0.75 (4.0\%)]$$

10
$$k = 5.08\%$$

11 Water Company Sample using 5.0 percent

12
$$k = r_f + [\beta (r_m - r_f)]$$

13
$$k = 2.08\% + [0.75 (5.0\%)]$$

14
$$k = 5.83\%$$

15 As can be seen above, my CAPM model, using a water company sample
16 average beta (β) of 0.75 and the yield on a 5-year Treasury instrument of
17 2.08 percent for the risk free rate of return (r_f), produces an expected
18 return (k) of 5.08 percent to 5.83 percent. My LDC sample, using an
19 average beta of 0.66, produces expected returns of 4.72 percent to 5.38
20 percent. All of which makes my recommended 9.00 percent cost of
21 common equity appear to be both reasonable and attractive to investors.
22

1 Q. Do you have any data that supports a 4.00 percent to 5.0 percent equity
2 risk premium during the market crises which unfolded in September of
3 2008?

4 A. Yes. In September 2008 Dr. Damodaran, who I noted earlier in my
5 testimony, presented a paper titled Equity Risk Premium (ERP):
6 Determinants, Estimation and Implications, which contained an October
7 update that presented data on the swings in implied equity risk premium
8 that occurred between September 12, 2008 and October 16, 2008. During
9 that time frame, implied equity risk premiums ranged from 4.20 percent to
10 6.39 percent. The 5.30 percent mean average of that range is 15 basis
11 points lower than the 5.45 percent average of my updated market risk
12 premium of 4.50 percent and 6.40 percent using both geometric and
13 arithmetic means respectively. In February, 2011 Dr. Damodaran updated
14 the data published in his paper (Exhibit 3). Based on the information
15 contained in his update, I believe that the market risk premiums used in
16 my CAPM analysis are still reasonable.

17
18 Q. Please respond to Mr. Bourasssa's argument that your overall CAPM
19 results are below the current yields on Baa/BBB debt instruments.

20 A. I am not recommending that the Commission adopt my CAPM results, but
21 I am not recommending that the Commission ignore my CAPM results
22 either. In fact, the 5.93 percent average produced by my updated CAPM
23 analysis (Surrebuttal Schedule WAR-1, Page 3) is 15 basis points higher

1 than the current 5.78 percent yield on Baa/BBB utility bonds (Attachment
2 F). What I am recommending is a cost of common equity of 9.00 percent
3 which is 322 to 367 basis points over the most recent yields of 5.78
4 percent to 5.33 percent for Baa/BBB-rated and A-rated utility bonds
5 respectively (Attachment F). The results of my CAPM analyses (using
6 both arithmetic and geometric means) are simply reflecting the current
7 environment of low interest rates which cannot be ignored. From the
8 perspective that public utilities have traditionally been viewed as safe
9 investments, and all things being equal, it is not reasonable to believe that
10 their costs of equity capital should be at the 10.20 percent level advocated
11 by Mr. Bourassa.

12
13 Q. Isn't it also true that common shareholders bear a higher risk than bond
14 holders and expect a higher return than the yields of utility debt
15 instruments?

16 A. Yes. I do not disagree on this point. However, the question is how much
17 more of a risk premium is merited for a low risk regulated monopoly such
18 as GWC, particularly at a time when interest rates are still at historic lows.

19
20 Q. Has the ACC ever adopted a risk premium adjustment for small sized
21 utilities?

22 A. Not in any cases that I am aware of.
23

1 **Capital Structure**

2 Q. Please respond to Mr. Bourasa's criticism of your decision to recommend
3 a hypothetical capital structure for GWC.

4 A. Mr. Bourassa seems to believe that my decision to recommend a
5 hypothetical capital structure in a given case is limited to what I have
6 recommended in other cases that I have testified on. The fact is that I
7 make decisions on a case by case basis and in this case I believe that a
8 hypothetical capital structure – one that is more in line with the companies
9 included in my water and LDC sample – is appropriate.

10

11 Q. Was your decision to recommend a hypothetical capital structure
12 influenced by the fact that GWC's long-term debt is comprised of a
13 shareholder loan, as opposed to a bond issuance or a loan from a
14 financial institution?

15 A. Yes. Typically I have avoided recommending hypothetical capital
16 structures in cases where the investor owned utility had debt comprised of
17 bond issuances or loans with third-party financial institutions – as in the
18 Litchfield Park Service Company case cited by Mr. Bourassa. However, in
19 this case, where GWC's debt is a shareholder loan which I consider to be
20 a less than arms length transaction, I believe that a hypothetical capital
21 structure makes more sense given the fact that the level of financial risk
22 faced by GWC is lower than what it would be if the Company faced the

1 possibility of defaulting on money owed to bondholders or a third party
2 financial institution such as a bank.
3

4 Q. Do you believe that your decision to recommend a hypothetical capital
5 structure in this case is confiscatory and that you are only recommending
6 it to obtain the lowest possible rate of return as Mr. Bourassa has
7 charged?

8 A. No. One of the principal reasons for utility regulation is to emulate what
9 would happen if a natural monopoly, such as GWC, had to face
10 competitive market pressures which would force them to operate at the
11 least possible cost. This includes the cost of capital that results from an
12 optimal capital structure. In this case, I am simply recommending a more
13 balanced capital structure that is in line with the capital structures of the
14 water companies and LDC's in my sample. More to the point, I believe I
15 am recommending a capital structure that a prudent chief financial officer
16 – one that is operating a competitive business entity – would most likely
17 opt for in order to reduce his or her firm's overall cost of capital and also
18 benefit from the tax advantages that are associated with lower cost debt
19 financing.
20
21
22
23

Cash Flow

Q. Would GWC have adequate cash flow to cover the company's debt service obligations, assuming that your 6.13 percent recommended cost of debt is adopted, at RUCO's recommended level of required revenue?

A. Yes. GWC would have \$321,508 in available cash flow (Operating Income + Depreciation Expense = \$137,790 + \$183,719 = \$321,508) to cover a projected annual debt service of \$37,230 (Interest Expense + Principal Repayment = \$23,409 + \$13,821 = \$37,230). Using the same type of financial analysis that the Commission has relied on for approving utility financing applications, RUCO's recommended level of operating revenue would provide GWC with the following times interest earned ("TIER") and debt service coverage ratios ("DSC"):

| | | |
|-------------------------------------|----|---------|
| (1) Operating Income | \$ | 137,790 |
| (2) Depreciation and Amortization | | 183,719 |
| (3) Income Tax Expense | | 42,716 |
| (4) Interest Expense | \$ | 23,409 |
| (5) Repayment of Principal | | 13,821 |
| (6) TIER (Interest Coverage) | | |
| (7) [(1) + (3)] ÷ (4) | | 7.71 |
| (8) DSC | | |
| (9) [(1) + (2) + (3)] ÷ [(4) + (5)] | | 9.78 |

The above calculation uses operating income information exhibited in RUCO witness Timothy J. Coley's Surrebuttal Schedule TJC-8 and uses twelve months of interest and principal payments, for the 2012 operating

1 period, based on RUCO's recommended 6.13 percent rate of interest.
2 The interest and principal payments assume a restructured shareholder
3 loan with a remaining balance of \$471,073⁸ to be repaid over seventeen
4 years.

5
6 Q. Please explain what the TIER of 7.71 and the DSC of 9.78 represents.

7 A. A TIER that is greater than 1.00 means that pre-tax operating income is
8 greater than interest expense. In this case, RUCO's recommended pre-
9 tax operating income of \$180,506 (Operating Income + Income Tax
10 Expense = \$137,790 + \$42,716 = \$180,506) is approximately 7.71 times
11 greater than interest expense of \$23,409.

12 DSC represents the number of times internally generated cash will cover
13 required interest and principal payments on short-term and long-term debt.
14 A DSC greater than 1.00 indicates that operating cash flow is sufficient to
15 cover debt service obligations. A DSC of 9.78 indicates that GWC would
16 clearly have adequate cash to meet its debt service obligation under
17 RUCO's recommended 6.13 percent cost of debt.

18
19 Q. How much would GWC save in annual debt service if the Commission
20 were to adopt your recommended 6.13 percent cost of debt?

21 A. GWC's annual debt service would be reduced from the current annual
22 amount of \$54,923 (Monthly Payment x 12 months = \$4,576.90 x 12 =

⁸ The remaining principal balance on the existing shareholder loan assuming that new rates go into effect on October 1, 2011.

1 \$54,923) to \$37,230 (Monthly Payment x 12 months = \$3,723.04 x 12 =
2 \$37,230). This would result in an annual savings of \$17,693 (\$54,923 -
3 \$37,230 = \$17,693) for the Company.

4

5 Q. Would GWC have cash available to pay dividends if its board of directors
6 made the decision to declare one?

7 A. Yes. Under the scenario described above, GWC would have \$284,279 in
8 available cash after covering its annual debt service of \$37,230 (Operating
9 Income + Depreciation Expense - Interest Expense - Principal Repayment
10 = \$137,790 + \$183,719 - \$23,409 - \$13,821 = \$284,279). If the
11 Company's directors elected to pay out cash dividends totaling \$90,000,
12 as they did during the Test Year, they would still have \$194,279 in cash
13 available for other purposes (Cash Available After Debt Service Payment -
14 Declared Dividend Payment = \$284,279 - \$90,000 = \$194,279).

15

16 **Cost of Debt**

17 Q. Have Mr. Bourassa's rebuttal arguments caused you to revise your
18 recommendation for a 6.13 percent hypothetical cost of debt?

19 A. No. Mr. Bourassa puts up a strenuous argument for GWC's 8.50 percent
20 rate of interest and takes the position that third party lenders would
21 probably not loan money to the Company at a rate of interest that is lower
22 than that.

23

1 Q. What is your response to Mr. Bourassa's position?

2 A. My position has not changed. A prudent money manager would take
3 advantage of lower prevailing interest rates and refinance or restructure
4 existing higher cost debt. In this case the current 8.50 percent rate of
5 interest was decided on by the same GWC shareholders who are
6 collecting the annual interest expense as opposed to a third-party financial
7 institution.

8

9 Q. What is the current yield on Baa/BBB-rated utility bonds?

10 A. As noted earlier in my testimony, as of May 11, 2011, the yield on
11 Baa/BBB-rated utility bonds is 5.78 percent (Attachment F). This is 272
12 basis points lower than GWC's 8.50 percent cost of debt.

13

14 Q. Have you revised your recommended 6.13 percent cost of debt given the
15 fact that the yields on Baa/BBB utility bonds are lower than what they were
16 when you filed your direct testimony?

17 A. No. Despite the fact that the current 5.78 percent yield on Baa/BBB utility
18 bonds has fallen 30 basis points, I am still recommending a 6.13 percent
19 hypothetical cost of debt for GWC.

20

21

22

23

1 **DCF Analysis**

2 Q. Please comment on Mr. Bourassa's position that the results of your DCF
3 analysis should be rejected by the Commission because of the method
4 that you used to determine the internal growth rates in your DCF model.

5 A. The method that I have used to determine internal sustainable growth in
6 the DCF model is identical to the DCF analysis performed by ACC Staff
7 witness Stephen Hill, whose cost of equity recommendation was adopted
8 by the Commission in a prior Southwest Gas proceeding that I cited in my
9 direct testimony. The method is also consistent with the DCF analysis that
10 I performed in a prior Gold Canyon Sewer Company proceeding in which
11 the Commission adopted my recommended cost of capital. I am not
12 aware of any proceeding before the ACC in which Mr. Bourassa's
13 recommended costs of capital or the methods by which he arrived at those
14 recommendations were adopted by the Commission.

15
16 Q. Does your silence on any of the issues or positions addressed in the
17 rebuttal testimony of the Mr. Bourassa or any of the Company's other
18 witnesses constitute acceptance?

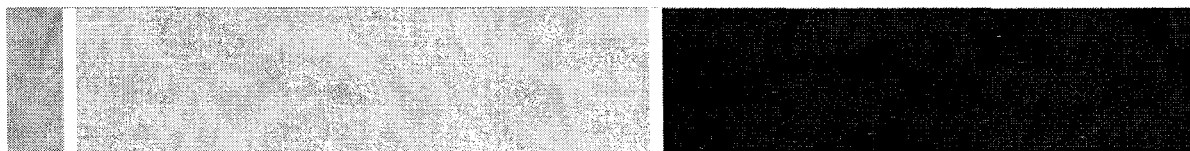
19 A. No, it does not.

20

21 Q. Does this conclude your surrebuttal testimony on GWC?

22 A. Yes, it does.

EXHIBIT 1



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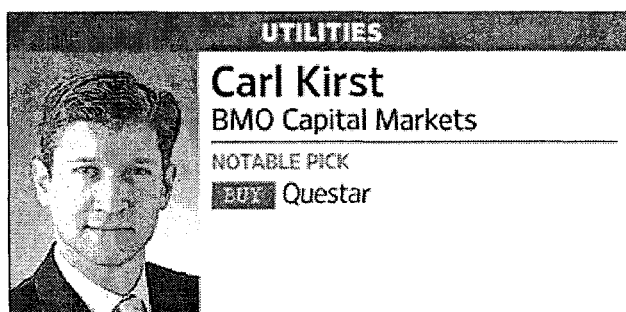
THE WALL STREET JOURNAL

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MAY 10, 2011

Utilities

Utility stocks are coveted by conservative investors for their high dividend payments and the companies' fairly stable cash flows. The downside is that investors tend to move out of them into hotter sectors when the economic outlook improves. That can make their performance somewhat choppy.



"You ultimately have to trust in your preparation and commit to making your move," says Carl Kirst, an analyst at the BMO Capital Markets Corp. arm of BMO Financial Group, who uses that philosophy whether he's out rock climbing or making stock calls. It not only has saved the 40-year-old Mr. Kirst's life on some treacherous climbs, but also helped him grab the top spot in the utilities sector for 2010 in the Best on the Street survey.

One of Mr. Kirst's top picks last year was a buy rating on **Questar** Corp., initiated in October 2009. The company, which focuses on natural gas, said in April 2010 that it would split its utility from its exploration-and-production business. Questar shares shot up after the announcement. "We essentially kept a buy on the stock until the company did in fact split," Mr. Kirst says, downgrading the stock to hold in mid-August and scoring a 29% return for investors who followed his timing. The stock returned 34% for the full year.

Mr. Kirst's best pick last year isn't a utility but generates the bulk of its profits from stable fees for pipelines transporting natural gas. His full-year buy rating on **El Paso** Corp. brought a 40% return. Mr. Kirst put a buy rating on El Paso in late 2009, near the stock's bottom. He was optimistic because "everything that could go wrong was already priced into the stock." He still rates the stock a buy, and believes it could rise at least 15% over the next 12 to 18 months as the company continues to expand its pipeline business, sheds some noncore assets and cuts its debt.

Journal Report

Read the complete **Best on the Street** report.

See the **Rankings**

While closely evaluating risks helped Mr. Kirst make some timely bets, exercising too much caution had its pitfalls. He missed out on one big mover in the utility sector in 2010: **National Fuel Gas Co.**

National Fuel Gas's stock, which returned 34% in 2010, rallied after the company announced last September that it was seeking a partner for its assets in the Marcellus shale, a prolific gas-production area in Pennsylvania. The announcement came earlier than Mr. Kirst expected and got investors excited. He

| | | | |
|-------------------------------------|--|-------------|--|
| Advertising & Publishing | | See 10 of 5 | |
| Automotive & Defense | | See 10 of 5 | |
| Healthcare | | See 10 of 5 | |
| Technology | | See 10 of 5 | |
| Telecommunications | | See 10 of 5 | |
| Energy | | See 10 of 5 | |
| Financials | | See 10 of 5 | |
| Consumer Goods | | See 10 of 5 | |
| Real Estate | | See 10 of 5 | |
| Industrials | | See 10 of 5 | |
| Utilities | | See 10 of 5 | |

Master Stock Pickers: See profiles and picks from the top analysts and questionnaires from other ranked stock pickers.

Firm by Firm: Overall rankings

missed out on the gains with his hold rating, which he maintains because it isn't clear what the terms of any partnership would be.

Looking ahead, Mr. Kirst says the most interesting trend in the natural-gas industry is the rapid development of liquefied natural gas for export. Just a few years ago, the U.S. was searching for LNG to import, but now utilities and other companies involved in production may be close to exporting it on a large scale, thanks to onshore reserves in shale-rock formations, declining costs and potential support from regulators, Mr. Kirst says.

Southern Union Co. is his top pick for investors looking to invest in the increasing likelihood for LNG exports, he says.

—Naureen S. Malik

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EXHIBIT 2

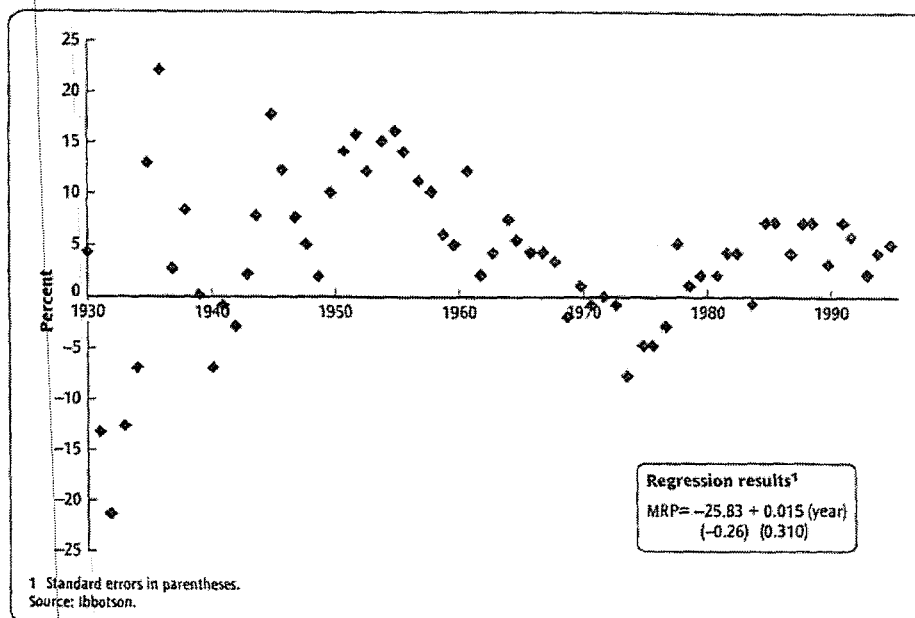
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VALUATION MEASURING AND MANAGING THE VALUE OF COMPANIES

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Exhibit 10.5 Five-Year Rolling Average of Market Risk Premia



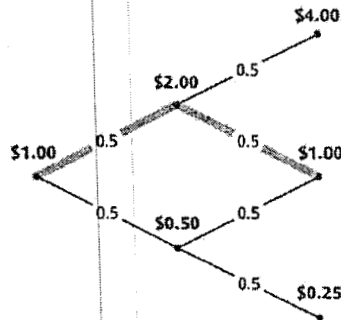
Geometric versus arithmetic average Let's turn to the question of geometric versus arithmetic average rates of return. An arithmetic average of rates of return is the simple average of the single period rates of return. Suppose you buy a share of a non-dividend-paying stock for \$50. After one year the stock is worth \$100. After two years the stock falls to \$50 once again. The first period return is 100 percent; the second period return is -50 percent. The arithmetic average return is 25 percent—100 percent - 50 percent divided by 2. The geometric average is the compound rate of return that equates the beginning and ending value, zero in our example.

What can we infer from these data? If we are willing to make the strong assumption that each return is an independent observation from a stationary underlying probability distribution, then we can infer that four equally likely return paths actually exist: 100 percent followed by 100 percent, 100 percent followed by -50 percent, -50 percent followed by 100 percent, and -50 percent followed by -50 percent. These possibilities are illustrated in Exhibit 10.6. The shaded area represents what we have actually observed, and the remainder of the binomial tree is what we have inferred by assuming independence.

The difference between the arithmetic and geometric averages is that the former infers expected returns by assuming independence, and the latter treats the observed historical path as the single best estimate of the

Exhibit 10.6 Arithmetic versus Geometric Return

Rate of return data
for four paths



Along the shaded path:

$$\text{Arithmetic return} = \frac{100\% - 50\%}{2} = 25\%$$

$$\text{Geometric return} = (1 + 100\%) (1 - 50\%) - 1 = 0\%$$

At first, it would seem that the geometric return is appropriate because, after all, we started with \$1.00 and ended with \$1.00 — a zero percent return. But remember, the theory says we are interested in the expected return. The expected (or ex ante) payout is the probability of each final payout multiplied by the return.

$$\begin{aligned} E(\text{payout}) &= \sum_{i=1}^N \text{probability}_i \text{payout}_i \\ &= \left[\frac{1}{2}\right]^2 (\$4.00) + 2 \left[\frac{1}{2}\right]^2 (\$1.00) + \left[\frac{1}{2}\right]^2 (\$0.25) \\ &= \$1.00 + \$0.50 + \$0.0625 = \$1.5625 \end{aligned}$$

You get the same answer by growing your \$1.00 starting wealth by 25 percent (the arithmetic return) for two years.

$$E(\text{payout}) = \$1.00 (1.25) (1.25) = \$1.5625$$

future. If you believe that it is proper to apply equal weighting to all branches in the binomial tree, and if your starting position is \$50, then your expected wealth is as follows:

$$1/4 (\$200) + 1/2 (\$50) + 1/4 (\$12.50) = \$78.125$$

Exactly the same value can be obtained by computing the arithmetic average return and applying it to the starting wealth as follows:

$$\$50 (1.25) (1.25) = \$78.125$$

The arithmetic average is the best estimate of future *expected* returns because all possible paths are given equal weighting. The single geometric average return is 0 percent, but this is the historical return along a single path that was realized by chance. Although the geometric return is the correct measure of historical performance, it is not forward looking.

The arithmetic return is always higher than the geometric return. The difference between them becomes greater as the variance of returns increases. Also, the arithmetic average depends on the interval chosen. For example, an average of monthly returns will be higher than an average of annual returns. The geometric average, being a single estimate for the entire time interval, is the same regardless of the interval chosen.

Exhibit 10.7 shows illustrative returns during 10 periods, and their arithmetic and geometric average during various intervals. The geometric average is independent of the time interval that is chosen for averaging, but the arithmetic average declines as a function of the time interval.

Exhibit 10.7 The Interval Effect

| Percent | Year | Return | | Arithmetic average | Geometric average |
|---------|------|--------|-----------------------|--------------------|-------------------|
| | 1 | 5 | 10 one-year intervals | 4.70 | 4.17 |
| | 2 | -10 | 5 two-year intervals | 4.51 | 4.17 |
| | 3 | 8 | 2 five-year intervals | 4.19 | 4.17 |
| | 4 | 16 | 1 ten-year interval | 4.17 | 4.17 |
| | 5 | -6 | | | |
| | 6 | -10 | | | |
| | 7 | 20 | | | |
| | 8 | 4 | | | |
| | 9 | 18 | | | |
| | 10 | 2 | | | |

Exhibit 10.8 shows the market risk premium for U.S. large capitalization stocks using the arithmetic mean for different return periods. For example, for the three-year periodicity, we calculated the three-year returns for 24 periods and then took the arithmetic average of the three-year returns (annualized to one year). The results show that the estimated arithmetic average declines as you average over longer intervals. There is no guidance or intuition that would lead us to conclude that the CAPM, a one-period model, is necessarily a one-year model. Note that the arithmetic risk premium, based on two-year intervals, is a full one percent less than the premium based on one-year intervals. Given the large gap between one- and two-year intervals compared with the gap between two years and all other intervals, we chose to base our market risk premium estimate on the two-year interval.

Our choice of a two-year or greater interval is supported by evidence that historical returns are not independent draws from a stationary distribution. Empirical research by Fama and French (1988), Lo and MacKinlay (1988), and Poterba and Summers (1988)¹⁰ indicates that a significant long-term negative

Exhibit 10.8 Arithmetic Average for Various Intervals

| Percent | 1926-1998 | Large company stocks | Long-term government bonds | Market risk premium |
|---------|-----------------------------------|----------------------|----------------------------|---------------------|
| | Arithmetic mean of 1-year returns | 13.2 | 5.7 | 7.5 |
| | Arithmetic mean of 2-year returns | 11.9 | 5.4 | 6.5 |
| | Arithmetic mean of 3-year returns | 11.6 | 5.3 | 6.3 |
| | Arithmetic mean of 4-year returns | 11.4 | 5.3 | 6.1 |
| | Geometric mean | 11.2 | 5.3 | 5.9 |

autocorrelation exists in stock returns. The implication is that the true market risk premium lies between the arithmetic and geometric averages.

Survivorship bias Brown, Goetzmann, and Ross first raised survivorship bias as an issue (1995), claiming that survival imparts a bias to ex post returns.¹¹ If the market risk premium were zero, a substantial upward bias would be imparted on markets that survive over a century without going under. Jorion and Goetzmann (1999) have attempted to estimate the survivorship bias by collecting monthly rate of return data from 1921 to 1996 for 39 stock market indices.¹² If one looks at geometric returns, the United States outperformed all others during the twentieth century, averaging 6.9 percent in nominal terms annually, or 4.3 percent in real terms (deflating by the wholesale price index) between January 1926 and December 1996. Of the group of 24 markets that existed in 1931, only seven experienced no interruption in trading (the United States, Canada, the United Kingdom, Australia, New Zealand, Sweden, and Switzerland), seven suspended trading for less than a year, and the remaining 10 suffered long-term closure. The breaks were not favorable events. Over World War II the Japanese market fell 95 percent in real terms, and the German market fell 84 percent.

It is unlikely that the U.S. market index will do as well over the next century as it has in the past, so we adjust downward the historical arithmetic average market risk premium. Using the tables in Jorion and Goetzmann, we find that between 1926 and 1996, the U.S. arithmetic annual return exceeded the median return on a set of 11 countries with continuous histories dating to the 1920s by 1.9 percent in real terms, or 1.4 percent in nominal terms. If we subtract a 1½ percent to 2 percent survivorship bias from the long-term arithmetic average of 6.5 percent, we conclude that the market risk premium should be in the 4½ percent to 5 percent range.

Ex ante estimates of the market risk premium An alternative to the historically estimated market risk premium is an ex ante estimate, one based on the current value of the share market relative to projections of earnings or cash flows. One approach estimates the expected rate of return on the market portfolio, $E(r_m)$, by adding the analysts' consensus estimate of

¹⁰E. Fama and K. French, "Dividend Yields and Expected Stock Returns," *Journal of Financial Economics* (October 1988), pp. 3-26; A. Lo and C. MacKinlay, "Stock Prices Do Not Follow Random Walks: Evidence from a Simple Specification Test," *Review of Financial Studies* (1988), pp. 41-66; J. Poterba and L. Summers, "Mean Reversion in Stock Prices," *Journal of Financial Economics* (October 1988), pp. 27-60.

¹¹S. Brown, W. Goetzmann, and S. Ross, "Survivorship Bias," *Journal of Finance* (July 1995), pp. 853-873.

¹²P. Jorion and W. Goetzmann, "Global Stock Markets in the Twentieth Century," Working Paper (New Haven, CT: Yale School of Management, 1999).

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EXHIBIT 3

**Equity Risk Premiums (ERP): Determinants, Estimation and
Implications – The 2011 Edition**

Updated: February 2011

Aswath Damodaran

Stern School of Business

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Appendix 5: Year-end Implied Equity Risk Premiums: 1961-2010

| <i>Year</i> | <i>S&P 500</i> | <i>Earnings</i> | <i>Dividends</i> | <i>T.Bond Rate</i> | <i>Estimated Growth</i> | <i>Implied Premium</i> |
|-------------|--------------------|-----------------|------------------|--------------------|-------------------------|------------------------|
| 1961 | 71.55 | 3.37 | 2.04 | 2.35% | 2.41% | 2.92% |
| 1962 | 63.1 | 3.67 | 2.15 | 3.85% | 4.05% | 3.56% |
| 1963 | 75.02 | 4.13 | 2.35 | 4.14% | 4.96% | 3.38% |
| 1964 | 84.75 | 4.76 | 2.58 | 4.21% | 5.13% | 3.31% |
| 1965 | 92.43 | 5.30 | 2.83 | 4.65% | 5.46% | 3.32% |
| 1966 | 80.33 | 5.41 | 2.88 | 4.64% | 4.19% | 3.68% |
| 1967 | 96.47 | 5.46 | 2.98 | 5.70% | 5.25% | 3.20% |
| 1968 | 103.86 | 5.72 | 3.04 | 6.16% | 5.32% | 3.00% |
| 1969 | 92.06 | 6.10 | 3.24 | 7.88% | 7.55% | 3.74% |
| 1970 | 92.15 | 5.51 | 3.19 | 6.50% | 4.78% | 3.41% |
| 1971 | 102.09 | 5.57 | 3.16 | 5.89% | 4.57% | 3.09% |
| 1972 | 118.05 | 6.17 | 3.19 | 6.41% | 5.21% | 2.72% |
| 1973 | 97.55 | 7.96 | 3.61 | 6.90% | 8.30% | 4.30% |
| 1974 | 68.56 | 9.35 | 3.72 | 7.40% | 6.42% | 5.59% |
| 1975 | 90.19 | 7.71 | 3.73 | 7.76% | 5.99% | 4.13% |
| 1976 | 107.46 | 9.75 | 4.22 | 6.81% | 8.19% | 4.55% |
| 1977 | 95.1 | 10.87 | 4.86 | 7.78% | 9.52% | 5.92% |
| 1978 | 96.11 | 11.64 | 5.18 | 9.15% | 8.48% | 5.72% |
| 1979 | 107.94 | 14.55 | 5.97 | 10.33% | 11.70% | 6.45% |
| 1980 | 135.76 | 14.99 | 6.44 | 12.43% | 11.01% | 5.03% |
| 1981 | 122.55 | 15.18 | 6.83 | 13.98% | 11.42% | 5.73% |
| 1982 | 140.64 | 13.82 | 6.93 | 10.47% | 7.96% | 4.90% |
| 1983 | 164.93 | 13.29 | 7.12 | 11.80% | 9.09% | 4.31% |
| 1984 | 167.24 | 16.84 | 7.83 | 11.51% | 11.02% | 5.11% |
| 1985 | 211.28 | 15.68 | 8.20 | 8.99% | 6.75% | 3.84% |
| 1986 | 242.17 | 14.43 | 8.19 | 7.22% | 6.96% | 3.58% |
| 1987 | 247.08 | 16.04 | 9.17 | 8.86% | 8.58% | 3.99% |
| 1988 | 277.72 | 24.12 | 10.22 | 9.14% | 7.67% | 3.77% |
| 1989 | 353.4 | 24.32 | 11.73 | 7.93% | 7.46% | 3.51% |
| 1990 | 330.22 | 22.65 | 12.35 | 8.07% | 7.19% | 3.89% |
| 1991 | 417.09 | 19.30 | 12.97 | 6.70% | 7.81% | 3.48% |
| 1992 | 435.71 | 20.87 | 12.64 | 6.68% | 9.83% | 3.55% |
| 1993 | 466.45 | 26.90 | 12.69 | 5.79% | 8.00% | 3.17% |
| 1994 | 459.27 | 31.75 | 13.36 | 7.82% | 7.17% | 3.55% |
| 1995 | 615.93 | 37.70 | 14.17 | 5.57% | 6.50% | 3.29% |
| 1996 | 740.74 | 40.63 | 14.89 | 6.41% | 7.92% | 3.20% |
| 1997 | 970.43 | 44.09 | 15.52 | 5.74% | 8.00% | 2.73% |
| 1998 | 1229.23 | 44.27 | 16.20 | 4.65% | 7.20% | 2.26% |
| 1999 | 1469.25 | 51.68 | 16.71 | 6.44% | 12.50% | 2.05% |

| | | | | | | |
|------|---------|-------|--------|-------|--------|-------|
| 2000 | 1320.28 | 56.13 | 16.27 | 5.11% | 12.00% | 2.87% |
| 2001 | 1148.09 | 38.85 | 15.74 | 5.05% | 10.30% | 3.62% |
| 2002 | 879.82 | 46.04 | 16.08 | 3.81% | 8.00% | 4.10% |
| 2003 | 1111.91 | 54.69 | 17.88 | 4.25% | 11.00% | 3.69% |
| 2004 | 1211.92 | 67.68 | 19.407 | 4.22% | 8.50% | 3.65% |
| 2005 | 1248.29 | 76.45 | 22.38 | 4.39% | 8.00% | 4.08% |
| 2006 | 1418.3 | 87.72 | 25.05 | 4.70% | 12.50% | 4.16% |
| 2007 | 1468.36 | 82.54 | 27.73 | 4.02% | 5.00% | 4.37% |
| 2008 | 903.25 | 65.39 | 28.05 | 2.21% | 4.00% | 6.43% |
| 2009 | 1115.10 | 59.65 | 22.31 | 3.84% | 7.20% | 4.36% |
| 2010 | 1257.64 | 83.66 | 23.12 | 3.29% | 6.95% | 5.20% |

ATTACHMENT A

Water utility stocks have been met with some resistance since our January review. Indeed, all but a single issue covered in our *Survey* gave back some ground. And the exception advanced less than 10% in price. As a result, the group, as a whole, has slipped into the bottom half of the pack for Timeliness after residing in the top quartile last time around.

Wall Street's apprehension is not surprising, given that most of the companies reported disappointing earnings in the fourth-quarter. (First-quarter results were not released as of the day of this report). Indeed, revenue growth, although healthy thanks to continued progress on the regulatory front, seemed to fall short of expectations. Earnings, meanwhile, were further frustrated by the increasing costs of doing business.

The group's growth prospects going forward are not overly impressive either. With the exception of *American Water Works*, not a single stock in this industry stands out for Timeliness or 3- to 5-year price appreciation potential. The companies here face stiff headwinds on the cost front, as many of the country's water systems are aging and increasing in the need for repairs and maintenance. Financial constraints are of further concern, with the financial moves that are likely to be made in order to maintain infrastructures dilutive to share-net growth.

Insatiable Thirst

As an essential part of life for all forms of life, demand for water is undeniable. As a result, the delivery of this liquid, which water utilities are responsible for, is nearly as vital. Indeed, water providers are responsible for the safe and timely delivery of water to millions of Americans every day. Demand for water ought to continue to grow along with the population, creating the most favorable landscape for companies operating in this area.

Favorable Backing

Although the services of most utilities reach across state lines nowadays, state regulatory boards have been put in place to maintain a balance of power between providers and customers. Among their main responsibilities is to review and rule on general rate case requests submitted by providers looking to recover costs. That being said, it is easy to recognize the importance that they play to utilities. Many boards have become far

INDUSTRY TIMELINESS: 54 (of 96)

more business friendly in recent years, auguring well for utilities.

Deleterious Costs

Despite a more favorable regulatory climate, providers still have troubles facing them. Infrastructures are decaying rapidly and, in many cases, need complete overhauls. The costs to make the repairs are exorbitant many operating in this space do not have the funds on hand to foot the bill. Indeed, most are strapped for cash and will have to look to outside financiers to keep up. Although consolidation trends present unique opportunities for those with the financial capabilities to throw their hat in the ring, such as *Aqua America*, others are just trying to stay afloat. Unfortunately, the financing costs to stay in business, whether it be additional share or debt offerings, will probably drown most and dilute shareholder gains moving ahead.

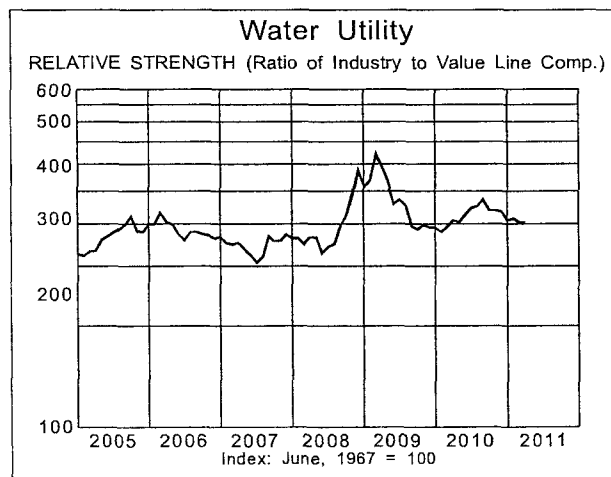
Conclusion

The bulk of the stock's in this group have lost any luster they had from a growth perspective. Although the share-price weakness makes for more attractive entry points, only *American States Water* stands out for appreciation potential. That said, the dividends of many help make for worthwhile total return appeal in some cases. Again *American States Water*, along with *American Water Works*, and newcomer *SJW Corp.*, top the list on this account. (Readers can see more about *SJW* in the pages that follow). That said, we do think that there are better options out there for investors looking to add an income-producing stock to the portfolios. The average Electric Utility stock, for example generates better income. Plus, the financial constraints mentioned above sit in the back of our heads when it comes to thinking about the payout down the road. Elsewhere *Aqua America* is an interesting issue. Its acquisition-friendly ways, especially its recent venture into the solar power arena, may interest more risk-tolerant investors. As always, we advise potential investors to take a more thorough look at the individual stocks before making any monetary commitments.

Andre J. Costanza

| Composite Statistics: Water Utility Industry | | | | | | | | | |
|--|---------|---------|-------|-------|-------|------------------------|--|-------|--|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | | 14-16 | |
| 3691.8 | 3613.3 | 4137.7 | 4510 | 4785 | 5050 | Revenues (\$mill) | | 5925 | |
| d168.8 | 372.0 | 399.6 | 490 | 535 | 490 | Net Profit (\$mill) | | 750 | |
| NMF | NMF | 38.2% | 39.0% | 39.0% | 39.0% | Income Tax Rate | | 39.0% | |
| NMF | NMF | 1.5% | 5.0% | 7.0% | 8.0% | AFUDC % to Net Profit | | 10.0% | |
| 51.1% | 51.1% | 52.3% | 52.0% | 52.0% | 51.0% | Long-Term Debt Ratio | | 51.0% | |
| 48.9% | 48.9% | 47.7% | 48.0% | 48.0% | 49.0% | Common Equity Ratio | | 49.0% | |
| 13134.6 | 12795.2 | 13744.0 | 14300 | 14950 | 15475 | Total Capital (\$mill) | | 16785 | |
| 14542.8 | 14542.8 | 15611.0 | 17500 | 18250 | 18975 | Net Plant (\$mill) | | 21500 | |
| .3% | 4.4% | 4.4% | 5.0% | 5.5% | 6.0% | Return on Total Cap'l | | 8.0% | |
| NMF | 6.0% | 6.5% | 7.0% | 7.5% | 8.0% | Return on Shr. Equity | | 9.5% | |
| NMF | 6.0% | 6.5% | 7.0% | 7.5% | 8.0% | Return on Com Equity | | 9.5% | |
| NMF | 3.0% | 2.2% | 3.0% | 3.0% | 3.5% | Retained to Com Eq | | 4.5% | |
| NMF | 50% | 67% | 65% | 62% | 57% | All Div'ds to Net Prof | | 55% | |
| NMF | 20.7 | 19.3 | | | | Avg Ann'l P/E Ratio | | 21.0 | |
| NMF | 1.25 | 1.29 | | | | Relative P/E Ratio | | 1.40 | |
| 2.2% | 2.4% | 3.5% | | | | Avg Ann'l Div'd Yield | | 2.6% | |

Bold figures are
Value Line
estimates



| AMER. STATES WATER NYSE-AWR | | | | RECENT PRICE | 34.33 | P/E RATIO | 14.5 | (Trailing: 18.0 Median: 22.0) | RELATIVE P/E RATIO | 0.87 | DIV'D YLD | 3.0% | VALUE LINE | | | | | | | | | | | | | | | | | |
|---|-------|-----------------|--|-----------------------|--------|-----------|--------|-------------------------------|--------------------|-------|-----------|-------|------------|-------|-------|------------------------|-----------------------|----------------------------------|-------|--|--|--|--|--|--|--|--|--|--|--|
| TIMELINESS | 3 | Raised 11/19/10 | High: 25.3 | 25.3 | 26.4 | 29.0 | 29.0 | 26.8 | 34.6 | 43.8 | 46.1 | 42.0 | 38.8 | 39.6 | 36.4 | Target Price | Range | | | | | | | | | | | | | |
| SAFETY | 3 | New 2/4/00 | Low: 16.7 | 16.7 | 19.0 | 20.3 | 21.6 | 20.8 | 24.3 | 30.3 | 33.6 | 27.0 | 29.8 | 31.2 | 32.7 | 2014 | 2015 | | | | | | | | | | | | | |
| TECHNICAL | 2 | Raised 4/8/11 | LEGENDS 1.25 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-2 split 5/02 Options: No Shaded areas indicate recessions | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BETA | .75 | (1.00 = Market) | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | Ann'l Total | Price | Gain | Return | | | | | | | | | | | | | | | | | | | | | | | |
| High | 60 | (+75%) | 17% | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Low | 40 | (+15%) | 7% | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | M J J A S O N D J | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | |
| Options | 1 | 0 | 0 | 0 | 0 | 1 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | |
| to Sell | 1 | 0 | 0 | 1 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | |
| Institutional Decisions | | | | 202010 | 3Q2010 | 4Q2010 | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 46 | 53 | 59 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 55 | 47 | 51 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hld's(000) | 10863 | 11195 | 11086 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | Percent shares traded | 12 | 8 | 4 | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC 14-16 | | | | | | | | | | | | |
| 11.03 | 11.37 | 11.44 | 11.02 | 12.91 | 12.17 | 13.06 | 13.78 | 13.98 | 13.61 | 14.06 | 15.76 | 17.49 | 18.42 | 19.48 | 21.41 | 21.05 | 22.05 | Revenues per sh | 25.00 | | | | | | | | | | | |
| 1.75 | 1.75 | 1.85 | 2.04 | 2.26 | 2.20 | 2.53 | 2.54 | 2.08 | 2.23 | 2.64 | 2.89 | 3.31 | 3.37 | 3.40 | 4.34 | 4.15 | 4.35 | "Cash Flow" per sh | 4.85 | | | | | | | | | | | |
| 1.03 | 1.13 | 1.04 | 1.08 | 1.19 | 1.28 | 1.35 | 1.34 | .78 | 1.05 | 1.32 | 1.33 | 1.62 | 1.55 | 1.62 | 2.25 | 2.10 | 2.20 | Earnings per sh ^A | 2.60 | | | | | | | | | | | |
| .81 | .82 | .83 | .84 | .85 | .86 | .87 | .87 | .88 | .89 | .90 | .91 | .96 | 1.00 | 1.01 | 1.04 | 1.08 | 1.12 | Div'd Decl'd per sh ^B | 1.25 | | | | | | | | | | | |
| 2.19 | 2.40 | 2.58 | 3.11 | 4.30 | 3.03 | 3.18 | 2.68 | 3.76 | 5.03 | 4.24 | 3.91 | 2.89 | 4.45 | 4.18 | 4.24 | 4.15 | 4.35 | Cap'l Spending per sh | 5.00 | | | | | | | | | | | |
| 10.29 | 11.01 | 11.24 | 11.48 | 11.82 | 12.74 | 13.22 | 14.05 | 13.97 | 15.01 | 15.72 | 16.64 | 17.53 | 17.95 | 19.39 | 20.26 | 20.80 | 20.50 | Book Value per sh | 20.75 | | | | | | | | | | | |
| 11.77 | 13.33 | 13.44 | 13.44 | 13.44 | 15.12 | 15.12 | 15.18 | 15.21 | 16.75 | 16.80 | 17.05 | 17.23 | 17.30 | 18.53 | 18.63 | 19.25 | 19.50 | Common Shs Outst'g ^C | 20.00 | | | | | | | | | | | |
| 11.6 | 12.6 | 14.5 | 15.5 | 17.1 | 15.9 | 16.7 | 18.3 | 31.9 | 23.2 | 21.9 | 27.7 | 24.0 | 22.6 | 21.2 | 15.5 | Bold figures are | Avg Ann'l P/E Ratio | 19.0 | | | | | | | | | | | | |
| .78 | .79 | .84 | .81 | .97 | 1.03 | .86 | 1.00 | 1.82 | 1.23 | 1.17 | 1.50 | 1.27 | 1.36 | 1.41 | 1.00 | Value Line | Relative P/E Ratio | 1.25 | | | | | | | | | | | | |
| 6.7% | 5.8% | 5.5% | 5.0% | 4.2% | 3.9% | 3.6% | 3.6% | 3.5% | 3.6% | 3.1% | 2.5% | 2.5% | 2.9% | 2.9% | 3.0% | estimates | Avg Ann'l Div'd Yield | 2.5% | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 12/31/10 | | | | 197.5 | 209.2 | 212.7 | 228.0 | 236.2 | 268.6 | 301.4 | 318.7 | 361.0 | 398.9 | 405 | 430 | Revenues (\$mill) | 500 | | | | | | | | | | | | | |
| Total Debt \$361.2 mill. Due in 5 Yrs \$296.9 mill. | | | | 20.4 | 20.3 | 11.9 | 16.5 | 22.5 | 23.1 | 28.0 | 26.8 | 29.5 | 42.7 | 40.0 | 43.0 | Net Profit (\$mill) | 52.0 | | | | | | | | | | | | | |
| LT Debt \$299.8 mill. LT Interest \$21.6 mill. | | | | 43.0% | 38.9% | 43.5% | 37.4% | 47.0% | 40.5% | 42.6% | 37.8% | 38.9% | 42.6% | 42.0% | 40.0% | Income Tax Rate | 40.0% | | | | | | | | | | | | | |
| (LT interest earned: 4.9x: total interest coverage: 4.4x) | | | | -- | -- | -- | -- | -- | 12.2% | 8.5% | 6.9% | 3.2% | 5.0% | 5.0% | 5.0% | AFUDC % to Net Profit | 5.0% | | | | | | | | | | | | | |
| Leases, Uncapitalized: Annual rentals \$3.3 mill. | | | | 54.9% | 52.0% | 52.0% | 47.7% | 50.4% | 48.6% | 46.9% | 46.2% | 45.9% | 44.3% | 43.0% | 45.0% | Long-Term Debt Ratio | 49.5% | | | | | | | | | | | | | |
| Pension Assets-12/10 \$90.2 mill. Oblig. \$118.8 mill. | | | | 44.7% | 48.0% | 48.0% | 52.3% | 49.6% | 51.4% | 53.1% | 53.8% | 54.1% | 55.7% | 57.0% | 55.0% | Common Equity Ratio | 50.5% | | | | | | | | | | | | | |
| Pfd Stock None. | | | | 447.6 | 444.4 | 442.3 | 480.4 | 532.5 | 551.6 | 569.4 | 577.0 | 665.0 | 677.4 | 700 | 725 | Total Capital (\$mill) | 825 | | | | | | | | | | | | | |
| Common Stock 18,654,106 shs. as of 3/9/11 | | | | 539.8 | 563.3 | 602.3 | 664.2 | 713.2 | 750.6 | 776.4 | 825.3 | 866.4 | 905.2 | 950 | 1000 | Net Plant (\$mill) | 1150 | | | | | | | | | | | | | |
| MARKET CAP: \$650 million (Small Cap) | | | | 6.1% | 6.5% | 4.6% | 5.2% | 5.4% | 6.0% | 6.7% | 6.4% | 5.9% | 7.5% | 7.5% | 7.5% | Return on Total Cap'l | 8.0% | | | | | | | | | | | | | |
| CURRENT POSITION 2008 2009 12/31/10 | | | | 10.1% | 9.5% | 5.6% | 6.6% | 8.5% | 8.1% | 9.3% | 8.6% | 8.2% | 11.3% | 11.0% | 11.0% | Return on Shr. Equity | 12.5% | | | | | | | | | | | | | |
| (MILL.) | | | | 10.1% | 9.5% | 5.6% | 6.6% | 8.5% | 8.1% | 9.3% | 8.6% | 8.2% | 11.3% | 11.0% | 11.0% | Return on Com Equity | 12.5% | | | | | | | | | | | | | |
| Cash Assets | | | | 3.6% | 3.3% | NMF | 1.0% | 2.8% | 2.7% | 3.9% | 3.1% | 3.2% | 6.2% | 5.0% | 5.5% | Retained to Com Eq | 6.5% | | | | | | | | | | | | | |
| Other | | | | 65% | 65% | 113% | 84% | 67% | 67% | 58% | 64% | 61% | 45% | 52% | 51% | All Div's to Net Prof | 48% | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accts Payable | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Debt Due | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current Liab. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ANNUAL RATES Past Past Est'd '08-'10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| of change (per sh) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 Yrs. 5 Yrs. to '14-'16 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenues | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| "Cash Flow" | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Earnings | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dividends | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Book Value | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal- QUARTERLY REVENUES (\$mill.) Full | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| endar Mar.31 Jun. 30 Sep. 30 Dec. 31 Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal- EARNINGS PER SHARE ^A Full | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| endar Mar.31 Jun. 30 Sep. 30 Dec. 31 Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cal- QUARTERLY DIVIDENDS PAID ^B Full | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| endar Mar.31 Jun. 30 Sep. 30 Dec. 31 Year | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2007 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has 703 employees. Officers & directors own 2.6% of common stock (4/10 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc. CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

Favorable regulatory backing enabled American States Water to have a blowout fourth quarter. Indeed, the water utility posted earnings of \$0.71 a share, nearly four times the year-before tally. Revenues jumped 20%, to \$103.7 million, thanks to the recognition of retroactive revenues from earlier in the year associated with rate increases handed down by the California Public Utilities Commission (CPUC) in regard to general rate cases for Regions II and III.

Growth will be tough to come by this year due to the stiffer comparisons ... Although the benefits were all realized in the final quarter of the year, the CPUC's ruling added \$0.30 a share to the bottom line for the full-year 2010. AWR is subject to regulatory rulings so the gain is considered typical and not looked at as a nonrecurring. But we do not expect a similar occurrence this year.

... as well as the continued escalation of infrastructure costs. AWR's operating costs remain on the rise and are not likely to slow anytime soon, given that its water systems are growing older and require attention. Its pockets are all but empty, however, and the company will have to continue to seek outside financiers to stay afloat. Debt and equity issuances have become commonplace, and will likely remain a drag on earnings growth going forward. As a result, we look for share earnings to take a step back this year and to show modest improvement in 2012. That said, the company is slated to file a general rate case for all three regions in July of this year. A ruling is expected to take 18 months. A favorable verdict could prove our 2012 estimate conservative.

Capital projects are likely to remain a longer-term concern too. There is no end in sight to the infrastructure investment that is necessary. This industry is capital intensive, but unfortunately AWR is cash-strapped. As a result, the stock does not stand out for price appreciation potential for the coming six to 12 months or the 3 to 5 years ahead. The financial constraints lead to concerns about the company's dividend, which despite being above the average offering in our *Survey*, loses some luster when compared to other utilities.

Andre J. Costanza April 22, 2011

| CALIFORNIA WATER NYSE-CWT | | | | | | | | | | RECENT PRICE | 36.39 | P/E RATIO | 18.8 | (Trailing: 20.1 Median: 22.0) | RELATIVE P/E RATIO | 1.12 | DIV'D YLD | 3.4% | VALUE LINE | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---------------------------|--------|------------------|--|----------------------------------|------|------|------|------|------|--------------|-------|-----------|------|-------------------------------|--------------------|------|-----------|------|------------|--------------|------|------|------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| TIMELINESS | 4 | Lowered 3/4/11 | High: | 31.4 | 28.6 | 26.9 | 31.4 | 37.9 | 42.1 | 45.8 | 45.4 | 46.6 | 48.3 | 39.7 | 38.3 | | | | | Target Price | 2014 | 2015 | Range 2016 | | | | | | | | | | | | | | | | | | | | | | | |
| SAFETY | 3 | Lowered 7/27/07 | Low: | 21.5 | 22.9 | 20.5 | 23.7 | 26.1 | 31.2 | 32.8 | 34.2 | 27.7 | 33.5 | 33.8 | 34.6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TECHNICAL | 3 | Lowered 11/12/10 | LEGENDS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BETA | .70 | (1.00 = Market) | 1.33 x Dividends p sh divided by Interest Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | 2-for-1 split 1/98 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Price | Gain | Ann'l Total | Options: Yes | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| High | 55 | (+50%) | 14% | Shaded areas indicate recessions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Low | 40 | (10%) | 6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| to Buy | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Options | 0 | 0 | 0 | 0 | 2 | 0 | 1 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 2Q2010 | 3Q2010 | 4Q2010 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 43 | 53 | 62 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 72 | 53 | 48 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hld's(000) | 8640 | 9706 | 10125 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | Percent shares traded | 9 | 6 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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SJW CORP. NYSE-SJW

RECENT PRICE **22.65**

P/E RATIO NMF (Trailing: 27.0 Median: 22.0)

RELATIVE P/E RATIO NMF

DIV'D YLD **3.0%**

VALUE LINE

TIMELINESS 4 New 4/22/11
SAFETY 3 New 4/22/11
TECHNICAL 3 New 4/22/11
BETA .90 (1.00 = Market)

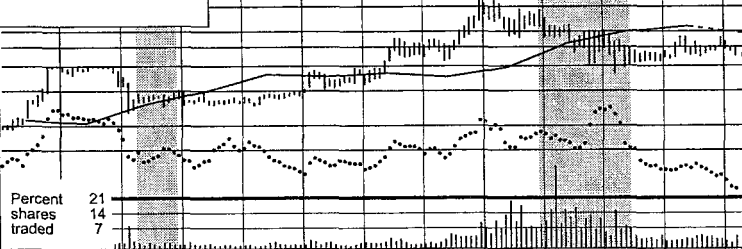
High: 20.3 17.8 15.1 15.0 19.6 27.8 45.3 43.0 35.1 30.4 28.2 26.8
 Low: 15.8 11.6 12.7 12.6 14.6 16.1 21.2 27.7 20.0 18.2 21.6 22.3

LEGENDS
 — 1.50 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 Options: No
 Shaded areas indicate recessions

2014-16 PROJECTIONS
 Price Gain Ann'l Total
 High 40 (+75%) 17%
 Low 25 (+10%) 6%

Insider Decisions
 M J J A S O N D J
 to Buy 1 0 0 0 0 0 0 0 1 0
 to Sell 0 0 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0 0

Institutional Decisions
 2Q2010 3Q2010 4Q2010
 to Buy 31 26 34
 to Sell 32 28 26
 Hld's(000) 8930 8969 8640



% TOT. RETURN 3/11
 THIS STOCK VL ARITH. INDEX
 1 yr. -6.4 23.4
 3 yr. -12.1 49.0
 5 yr. -2.7 45.9

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 4.99 | 5.39 | 5.79 | 5.58 | 6.40 | 6.74 | 7.45 | 7.97 | 8.20 | 9.14 | 9.86 | 10.35 | 11.25 | 12.12 | 11.68 | 11.62 | 11.20 | 11.35 |
| .98 | 1.43 | 1.27 | 1.26 | 1.43 | 1.23 | 1.49 | 1.55 | 1.75 | 1.89 | 2.21 | 2.38 | 2.30 | 2.44 | 2.21 | 2.37 | 2.40 | 2.40 |
| .59 | .96 | .80 | .76 | .87 | .58 | .77 | .78 | .91 | .87 | 1.12 | 1.19 | 1.04 | 1.08 | .81 | .84 | .90 | 1.00 |
| .35 | .37 | .38 | .39 | .40 | .41 | .43 | .46 | .49 | .51 | .53 | .57 | .61 | .65 | .66 | .68 | .69 | .74 |
| .96 | 1.06 | 1.27 | 1.81 | 1.77 | 1.89 | 2.63 | 2.06 | 3.41 | 2.31 | 2.83 | 3.87 | 6.62 | 3.79 | 3.17 | 5.65 | 5.15 | 5.00 |
| 5.58 | 6.31 | 7.02 | 7.53 | 7.88 | 7.90 | 8.17 | 8.40 | 9.11 | 10.11 | 10.72 | 12.48 | 12.90 | 13.99 | 13.66 | 13.75 | 14.90 | 15.70 |
| 19.50 | 19.02 | 19.02 | 19.01 | 18.27 | 18.27 | 18.27 | 18.27 | 18.27 | 18.27 | 18.27 | 18.28 | 18.36 | 18.18 | 18.50 | 18.55 | 20.50 | 22.00 |
| 9.9 | 6.8 | 11.2 | 13.1 | 15.5 | 33.1 | 18.5 | 17.3 | 15.4 | 19.6 | 19.7 | 23.5 | 33.4 | 26.2 | 28.7 | 29.5 | 29.5 | 29.5 |
| 66 | 43 | .65 | .68 | .88 | 2.15 | .95 | .94 | .88 | 1.04 | 1.05 | 1.27 | 1.77 | 1.58 | 1.91 | 1.89 | 1.89 | 1.89 |
| 6.0% | 5.7% | 4.3% | 3.9% | 3.0% | 2.1% | 3.0% | 3.4% | 3.5% | 3.0% | 2.4% | 2.0% | 1.7% | 2.3% | 2.8% | 2.8% | 2.8% | 2.8% |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 136.1 | 145.7 | 149.7 | 166.9 | 180.1 | 189.2 | 206.6 | 220.3 | 216.1 | 215.6 | 230 | 250 | 250 | 250 | 250 | 250 | 250 | 250 |
| 14.0 | 14.2 | 16.7 | 16.0 | 20.7 | 22.2 | 19.3 | 20.2 | 15.2 | 15.6 | 18.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 |
| 34.5% | 40.4% | 36.2% | 42.1% | 41.6% | 40.8% | 39.4% | 39.5% | 40.4% | 39.7% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% |
| 4.4% | 4.2% | 1.6% | 2.1% | 1.6% | 2.1% | 2.7% | 2.3% | 2.0% | 3.6% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| 42.4% | 41.7% | 45.6% | 43.7% | 42.6% | 41.8% | 47.7% | 46.0% | 49.4% | 53.7% | 51.0% | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% |
| 57.6% | 58.3% | 54.4% | 56.3% | 57.4% | 58.2% | 52.3% | 54.0% | 50.6% | 46.3% | 49.0% | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% |
| 259.4 | 263.5 | 306.0 | 328.3 | 341.2 | 391.8 | 453.2 | 470.9 | 499.6 | 550.7 | 625 | 700 | 700 | 700 | 700 | 700 | 700 | 700 |
| 367.8 | 390.8 | 428.5 | 456.8 | 484.8 | 541.7 | 645.5 | 684.2 | 718.5 | 785.5 | 850 | 930 | 930 | 930 | 930 | 930 | 930 | 930 |
| 6.7% | 6.9% | 6.9% | 6.5% | 7.6% | 7.0% | 5.7% | 5.8% | 4.4% | 4.2% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| 9.4% | 9.3% | 10.0% | 8.7% | 10.6% | 9.7% | 8.2% | 8.0% | 6.0% | 6.1% | 6.0% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% |
| 9.4% | 9.3% | 10.0% | 8.7% | 10.6% | 9.7% | 8.2% | 8.0% | 6.0% | 6.1% | 6.0% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% |
| 4.1% | 3.8% | 4.7% | 3.6% | 5.6% | 5.2% | 3.5% | 3.3% | 1.2% | 1.2% | 1.5% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| 56% | 59% | 53% | 58% | 47% | 46% | 57% | 59% | 80% | 81% | 74% | 74% | 74% | 74% | 74% | 74% | 74% | 74% |

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Revenues per sh | 12.00 | | | | | | | | | | | | | | | | |
| "Cash Flow" per sh | 2.60 | | | | | | | | | | | | | | | | |
| Earnings per sh | 1.30 | | | | | | | | | | | | | | | | |
| Div'd Decl'd per sh | .82 | | | | | | | | | | | | | | | | |
| Cap'l Spending per sh | 4.80 | | | | | | | | | | | | | | | | |
| Book Value per sh | 17.00 | | | | | | | | | | | | | | | | |
| Common Shs Outst'g | 25.00 | | | | | | | | | | | | | | | | |
| Avg Ann'l P/E Ratio | 25.0 | | | | | | | | | | | | | | | | |
| Relative P/E Ratio | 1.65 | | | | | | | | | | | | | | | | |
| Avg Ann'l Div'd Yield | 2.5% | | | | | | | | | | | | | | | | |

CAPITAL STRUCTURE as of 12/31/10
 Total Debt \$300.8 mill. Due in 5 Yrs \$12.4 mill.
 LT Debt \$295.7 mill. LT Interest \$15.9 mill.
 (LT interest earned: 2.7% total interest coverage: 2.6x) (54% of Cap'l)

Leases, Uncapitalized: Annual rentals \$4.2 mill.

Pension Assets-12/10 \$10.8 mill.
Oblig. \$58.8 mill.

Pfd Stock None.

Common Stock 18,577,012 shs.
 as of 2/8/11
MARKET CAP: \$425 million (Small Cap)

| CURRENT POSITION | 2008 | 2009 | 12/31/10 |
|------------------|------|------|----------|
| Cash Assets | 3.4 | 1.4 | 1.7 |
| Other | 28.6 | 26.6 | 36.3 |
| Current Assets | 32.0 | 28.0 | 38.0 |
| Accts Payable | 5.8 | 6.6 | 5.5 |
| Debt Due | 19.1 | 6.9 | 5.1 |
| Other | 18.4 | 18.5 | 18.6 |
| Current Liab. | 43.3 | 32.0 | 29.2 |
| Fix. Chg. Cov. | 293% | 352% | 400% |

| ANNUAL RATES | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 |
|--------------|--------------|-------------|---------------|
| Revenues | 6.5% | 5.5% | 5.0% |
| "Cash Flow" | 6.0% | 3.5% | 6.5% |
| Earnings | 2.0% | -1.5% | 9.0% |
| Dividends | 5.0% | 5.5% | 4.0% |
| Book Value | 6.0% | 6.5% | 3.5% |

| Cal-endar | Mar.31 | Jun. 30 | Sep. 30 | Dec. 31 | Full Year |
|-----------|--------|---------|---------|---------|-----------|
| 2008 | 41.3 | 60.0 | 69.5 | 49.5 | 220.3 |
| 2009 | 40.0 | 58.2 | 69.3 | 48.6 | 216.1 |
| 2010 | 40.4 | 54.1 | 70.3 | 50.8 | 215.6 |
| 2011 | 43.0 | 58.0 | 75.0 | 54.0 | 230 |
| 2012 | 47.0 | 63.0 | 81.0 | 59.0 | 250 |

| Cal-endar | Mar.31 | Jun. 30 | Sep. 30 | Dec. 31 | Full Year |
|-----------|--------|---------|---------|---------|-----------|
| 2008 | .15 | .34 | .44 | .15 | 1.08 |
| 2009 | .01 | .23 | .43 | .14 | .81 |
| 2010 | .05 | .24 | .44 | .11 | .84 |
| 2011 | .05 | .25 | .47 | .13 | .90 |
| 2012 | .07 | .28 | .50 | .15 | 1.00 |

| Cal-endar | Mar.31 | Jun. 30 | Sep. 30 | Dec. 31 | Full Year |
|-----------|--------|---------|---------|---------|-----------|
| 2007 | .15 | .15 | .15 | .15 | .60 |
| 2008 | .16 | .16 | .16 | .16 | .64 |
| 2009 | .165 | .165 | .165 | .165 | .66 |
| 2010 | .17 | .17 | .17 | .17 | .68 |
| 2011 | .173 | | | | |

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 226,000 connections that serve a population of approximately one million people in the San Jose area and 8,700 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and

We welcome newcomer SJW Corp to The Value Line Investment Survey in this issue. Although it dabbles in commercial property, the company, for all intents and purposes, is a water utility, engaging in the production, purchase, storage, purification, distribution, and sale of water. It offers nonregulated services via agreements with municipalities and other utilities, but the bulk of its business is regulated. Operations are centered around San Jose, California, where it provides more than 225,000 connections that serve population of roughly one million people. Services are not exclusive to the Golden State, however, with another 8,700 connections serving 36,000 residents in the state of Texas.

The company's inaugural appearance is forgettable. It posted earnings of \$0.11 in the fourth quarter of 2010 (March-period results are due out next week), a few pennies below the prior year's tally, after stripping out gains we deem as non-recurring in nature. Sales inched up modestly in the quarter, but the costs of doing business in this capital-intensive industry continued to take a toll.

Austin, Texas. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns and operates commercial real estate investments. Has 375 employees. Chairman: Charles J. Toeniskoetter, Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int:www.sjwater.com.

We are a little wary of the company's near-term prospects. Operating costs are likely to remain on the rise, given the shape that many water systems appear to be in across the United States. That said, SJW, like many of its bedfellows, is not exactly flush with cash and will probably have to turn to outside financing to make the improvements. The costs associated with additional debt or share offerings, however, will be dilutive, likely keeping growth under wraps going forward. Note, however, that growth may look decent against depressed 2010 comparisons.

We advise investors to take a pass on this issue. SJW is ranked 4 (Below Average) for Timeliness and lacks 3- to 5-year appreciation potential, as well. Meanwhile, the balance sheet is highly leveraged, adding some skepticism about the sustainability of the stock's only saving grace at this time, its dividend. Although the steady stream of income is not likely to dry up completely, the financial constraints alluded to above could prompt the company to use the funds to make capital improvements instead.

Andre J. Costanza April 22, 2011

(A) Diluted earnings. Excludes nonrecurring losses: '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, \$46. Next earnings report due April 28th. Quarterly eggs. may not add due to rounding.
 (B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.

(C) In millions.
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| | |
|------------------------------|----|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 70 |
| Price Growth Persistence | 80 |
| Earnings Predictability | 85 |

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| AQUA AMERICA NYSE-WTR | | | | RECENT PRICE | 21.94 | P/E RATIO | 23.8 | (Trailing: 24.4 Median: 25.0) | RELATIVE P/E RATIO | 1.43 | DIV'D YLD | 2.8% | VALUE LINE | Target Price Range | | | |
|--|-----|-----------------|--|--------------|-------|-----------|------|-------------------------------|--------------------|------|-----------|------|------------|--------------------|------|------|------|
| TIMELINESS | 3 | Lowered 1/21/11 | High: 12.0 | 14.8 | 15.0 | 16.8 | 18.5 | 29.2 | 29.8 | 26.6 | 22.0 | 21.5 | 23.0 | 23.8 | 2014 | 2015 | 2016 |
| SAFETY | 3 | Lowered 8/1/03 | Low: 6.3 | 9.4 | 9.6 | 11.8 | 14.2 | 17.5 | 20.1 | 18.9 | 12.2 | 15.4 | 16.5 | 21.6 | | | |
| TECHNICAL | 3 | Raised 4/8/11 | LEGENDS 1.50 x Dividends p sh divided by Interest Rate Relative Price Strength 4-for-3 split 1/98 5-for-4 split 12/00 5-for-4 split 12/01 5-for-4 split 12/03 4-for-3 split 12/05 Options: Yes Shaded areas indicate recessions | | | | | | | | | | | | | | |
| BETA | .65 | (1.00 = Market) | 2014-16 PROJECTIONS Price Gain Ann'l Total High 35 (+60%) 15% Low 25 (+15%) 3% | | | | | | | | | | | | | | |
| Insider Decisions | | | to Buy 1 0 0 0 1 0 0 0 0 Options 0 0 0 0 2 1 0 1 1 to Sell 0 0 0 0 2 1 1 1 0 | | | | | | | | | | | | | | |
| Institutional Decisions | | | to Buy 92 90 101 to Sell 119 101 94 Hld's(000) 60654 59791 55463 | | | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 12/31/10 | | | Total Debt \$1560.4 mill. Due in 5 Yrs \$316 mill. LT Debt \$1531.9 mill. LT Interest \$70.6 mill. (LT interest earned: 4.5x; total interest coverage: 4.5x) (57% of Cap'l) | | | | | | | | | | | | | | |
| Pension Assets-12/10 \$159.2 mill. | | | Oblig. \$234.9 mill. | | | | | | | | | | | | | | |
| Pfd Stock None | | | Common Stock 137,968,188 shares as of 2/11/11 | | | | | | | | | | | | | | |
| MARKET CAP: \$3.0 billion (Mid Cap) | | | | | | | | | | | | | | | | | |
| CURRENT POSITION (\$MILL.) | | | 2008 2009 12/31/10 | | | | | | | | | | | | | | |
| Cash Assets | | | 14.9 21.9 5.9 | | | | | | | | | | | | | | |
| Receivables | | | 84.5 78.7 85.9 | | | | | | | | | | | | | | |
| Inventory (AvgCst) | | | 9.8 9.5 9.2 | | | | | | | | | | | | | | |
| Other | | | 11.8 11.5 44.4 | | | | | | | | | | | | | | |
| Current Assets | | | 121.0 121.6 145.4 | | | | | | | | | | | | | | |
| Accts Payable | | | 50.0 57.9 45.3 | | | | | | | | | | | | | | |
| Debt Due | | | 87.9 87.0 28.5 | | | | | | | | | | | | | | |
| Other | | | 55.3 56.1 149.9 | | | | | | | | | | | | | | |
| Current Liab. | | | 193.2 201.0 223.7 | | | | | | | | | | | | | | |
| Fix. Chg. Cov. | | | 329% 346% 290% | | | | | | | | | | | | | | |
| ANNUAL RATES of change (per sh) | | | Past 10 Yrs. Past 5 Yrs. Est'd '08-'10 to '14-'16 | | | | | | | | | | | | | | |
| Revenues | | | 8.0% 7.5% 6.5% | | | | | | | | | | | | | | |
| "Cash Flow" | | | 8.5% 8.0% 8.0% | | | | | | | | | | | | | | |
| Earnings | | | 6.5% 4.5% 10.0% | | | | | | | | | | | | | | |
| Dividends | | | 7.5% 8.0% 6.0% | | | | | | | | | | | | | | |
| Book Value | | | 9.0% 7.0% 5.0% | | | | | | | | | | | | | | |
| QUARTERLY REVENUES (\$ mill.) | | | Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year | | | | | | | | | | | | | | |
| 2008 | | | 139.3 151.0 177.1 159.6 627.0 | | | | | | | | | | | | | | |
| 2009 | | | 154.5 167.3 180.8 167.9 670.5 | | | | | | | | | | | | | | |
| 2010 | | | 160.5 178.4 207.8 179.3 726.0 | | | | | | | | | | | | | | |
| 2011 | | | 180 185 215 195 775 | | | | | | | | | | | | | | |
| 2012 | | | 195 200 230 200 825 | | | | | | | | | | | | | | |
| EARNINGS PER SHARE ^A | | | Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year | | | | | | | | | | | | | | |
| 2008 | | | .11 .17 .26 .19 .73 | | | | | | | | | | | | | | |
| 2009 | | | .14 .19 .25 .20 .77 | | | | | | | | | | | | | | |
| 2010 | | | .16 .22 .32 .20 .90 | | | | | | | | | | | | | | |
| 2011 | | | .16 .22 .34 .23 .95 | | | | | | | | | | | | | | |
| 2012 | | | .18 .24 .36 .27 1.05 | | | | | | | | | | | | | | |
| QUARTERLY DIVIDENDS PAID ^B | | | Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year | | | | | | | | | | | | | | |
| 2007 | | | .115 .115 .125 .125 .48 | | | | | | | | | | | | | | |
| 2008 | | | .125 .125 .125 .135 .51 | | | | | | | | | | | | | | |
| 2009 | | | .135 .135 .135 .145 .55 | | | | | | | | | | | | | | |
| 2010 | | | .145 .145 .145 .155 .59 | | | | | | | | | | | | | | |
| 2011 | | | .155 | | | | | | | | | | | | | | |
| BUSINESS: | | | Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '10: residential, 59.4%; commercial, 14.5%; industrial & other, 26.0%. Officers and directors own 2.0% of the common stock (4/11 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com. | | | | | | | | | | | | | | |
| Aqua America is slated to improve steadily in 2011. Earnings growth is likely to be driven by purchases, as well as future favorable rate rulings. Acquisitions remain the backbone of growth. With its strong balance sheet, Aqua America is poised to continue growth via purchases this year. Though no concrete details are known at this time, we do anticipate seeing a string of transactions, similar to the previous year. Rate rulings should provide an additional boost to the bottom line. The company has implemented a rate recovery program, with most of its rate cases likely to receive favorable rulings. It already has several major cases on the horizon, though there have not been any filings. States that the company plans to file in include Pennsylvania, New Jersey, Ohio, Illinois, and Texas. In the best-case scenario, the increase in revenues should boost the bottom lines from 2012 onward. The Marcellus Shale project provides many growth opportunities. The company has already implemented a new program of "water stations" to fill the trucks that service the drillers in Marcellus | | | Shale. As the drilling requires significant water use, we expect drilling-related water consumption to increase in the future, adding to the revenue stream. Furthermore as the Marcellus Shale is set to provide impetus to many states that the company serves, we anticipate organic growth to increase over the next few years. Long-term prospects look bright for Aqua America. It looks ever likely that the company will benefit both from acquisition-driven growth and organic growth. Finally, Aqua America's diversification into other sectors continues. It is looking at three to four more solar operations this year, and is quite likely to ramp up production from 2012 onward, as these projects are turning out to be quite profitable in the near and long term. The company is also cutting down on costs, which should aid in boosting the bottom line over the next few years. Income investors should find this issue of interest. This equity's dividend yield is well above the industry average. Furthermore, the company has a history of steady dividend increases. | | | | | | | | | | | | | | |
| (A) Diluted eqs. Excl. nonrec. gains (losses): '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Earnings may not add due to rounding. Next earnings report due mid-May. | | | (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd reinvestment plan available (5% discount). | | | | | | | | | | | | | | |
| (C) In millions, adjusted for stock splits. | | | Company's Financial Strength B+ Stock's Price Stability 100 Price Growth Persistence 70 Earnings Predictability 100 | | | | | | | | | | | | | | |

ATTACHMENT B

Stocks in the Natural Gas Utility Industry generally posted a good performance over the past few months. However, this run was less impressive when compared to the stock market rally of late. Consequently, this group remains ranked in the bottom half of our Industry spectrum.

Regardless, the companies herein have been operating amid tough market conditions in recent months. The weakness in the housing market continues to weigh on results. These utilities continue to work to offset these pressure via numerous business strategies. However, near-term prospects will likely continue to be uninspiring until the economic recovery is further along.

Macroeconomic Climate

There has been some good news on the economic front in recent months. Some positive economic reports suggest that the global economy is posting slow growth. However, there are still some areas of concern. Notably, the weakness in the housing market and tight credit environment continue to weigh on this sector. Thus, we expect usage to continue to be impacted by these economic factors for the time being.

Regulation

Rate cases are a key theme for companies in this industry. These utilities are regulated by state commissions that determine the return on equity these companies can achieve. As a result, any pending rate cases remain carefully watched by investors. A favorable ruling can lead to an jump in a stock's price, while an unfavorable ruling can have the opposite effect. The current rate environment is fairly quiet. However, there are a few notable cases pending. For example, *WGL Holdings* and *Southwest Gas* both have cases being reviewed by regulatory commissions. All told, we suggest investors pay close attention to the rate environment when evaluating these stocks.

Nonregulated Activities

Many of the members here continue to invest in nonregulated businesses. These often provide opportunities for utilities to diversify their operations and improve profitability. The fact that these businesses can provide upside to share net is noteworthy, since the return on equity is set by the regulatory state commissions (usually in the 10%-12% range) on the regulated operations.

INDUSTRY TIMELINESS: 68 (of 97)

Looking ahead, nonregulated ventures will likely continue to become a more important theme for this sector over the coming years, given their potential to generate higher profits.

Recent Developments

There has been some news of consolidation in this industry since our last review. *Nicor* made headlines recently after it agreed to be purchased by *AGL Resources* for \$2.4 billion. The merger would create one of the largest natural gas distributors in the United States. The deal is expected to close in the second half of 2011. We would not be surprised to see other acquisitions in this sector in the not-so-distant future, given the improving economic climate. Another notable development is the increasing interest in "green" initiatives by natural gas utilities. State governments have increasingly been offering energy-efficiency programs in an effort to help these companies adapt to industry trends and to promote conservation. Consequently, numerous companies have been investing in "green" energy. For example, *New Jersey Resources* has been pushing forward with its solar initiative.

Weather

Weather remains another important factor to consider when looking at this group. Unseasonably warm or cold weather can have a notable impact on results as well as on natural gas prices. A particularly cold winter this year has helped results for many of the players in this group. However, weak natural gas prices widely offset the majority of the gains in usage.

Conclusion

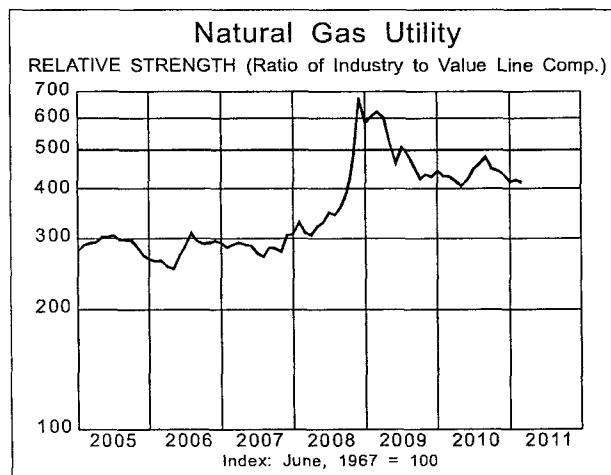
Momentum investors can probably find better options in a different industry group. Indeed, this sector's near-term prospects do not stand out. Total return potential 3- to 5-year hence is also widely unattractive. Thus, we suggest patient investors look elsewhere.

The main appeal of this sector is its above-average dividend yield. The average yield is approximately 3.8%, which is about twice the *Value Line* median. Consequently, income-oriented investors may find some of the stocks in this group of interest. *NiSource* and *AGL Resources* have particularly attractive dividend yields.

Richard Gallagher

| Composite Statistics: Natural Gas Utility | | | | | | | | | |
|---|--------|--------|-------|-------|-------|------------------------|--|--|-------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | | | 14-16 |
| 38528 | 44207 | 34909 | 42000 | 44500 | 47500 | Revenues (\$mill) | | | 54250 |
| 1562.4 | 1694.2 | 1677.6 | 1650 | 1725 | 1825 | Net Profit (\$mill) | | | 2175 |
| 33.9% | 35.7% | 33.8% | 36.0% | 36.0% | 36.0% | Income Tax Rate | | | 36.0% |
| 4.1% | 3.8% | 4.8% | 3.9% | 3.9% | 3.8% | Net Profit Margin | | | 4.0% |
| 50.4% | 50.6% | 49.9% | 52.0% | 52.0% | 51.0% | Long-Term Debt Ratio | | | 54.0% |
| 49.5% | 49.4% | 50.1% | 48.0% | 48.0% | 49.0% | Common Equity Ratio | | | 46.0% |
| 32263 | 32729 | 33974 | 34750 | 36250 | 37750 | Total Capital (\$mill) | | | 43000 |
| 33936 | 35342 | 37292 | 38500 | 40250 | 42250 | Net Plant (\$mill) | | | 50500 |
| 6.5% | 6.8% | 6.5% | 6.5% | 6.5% | 5.0% | Return on Total Cap'l | | | 5.0% |
| 9.8% | 10.5% | 10.0% | 10.5% | 10.0% | 10.0% | Return on Shr. Equity | | | 10.0% |
| 9.8% | 10.5% | 10.0% | 10.5% | 10.0% | 10.0% | Return on Com Equity | | | 10.0% |
| 3.7% | 4.3% | 3.8% | 4.5% | 4.0% | 3.5% | Retained to Com Eq | | | 4.0% |
| 62% | 59% | 61% | 63% | 61% | 60% | All Div'ds to Net Prof | | | 59% |
| 16.6 | 13.9 | 12.8 | | | | Avg Ann'l P/E Ratio | | | 13.0 |
| .88 | .83 | .88 | | | | Relative P/E Ratio | | | .85 |
| 3.7% | 4.2% | 4.1% | | | | Avg Ann'l Div'd Yield | | | 4.6% |
| 336% | 358% | 381% | 375% | 375% | 375% | Fixed Charge Coverage | | | 400% |

Bold figures are
Value Line
estimates



AGL RESOURCES NYSE-AGL

RECENT PRICE **38.14** P/E RATIO **12.9** (Trailing: 12.7 Median: 13.0) RELATIVE P/E RATIO **0.79** DIV'D YLD **4.7%** VALUE LINE

TIMELINESS 3 Raised 3/11/11
SAFETY 2 New 7/27/90
TECHNICAL 4 Lowered 3/11/11
BETA .75 (1.00 = Market)

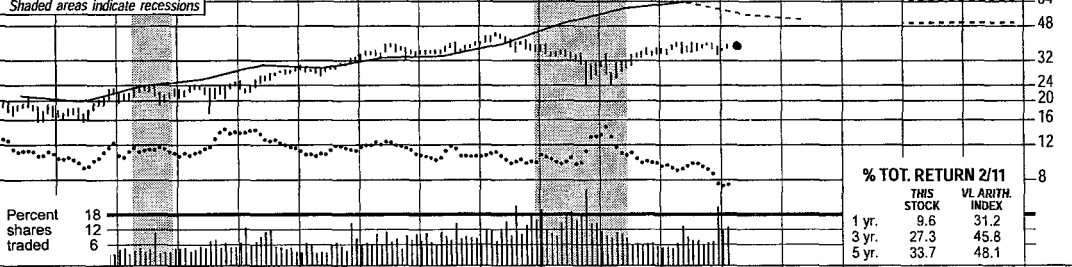
High: 23.2 24.5 25.0 29.3 33.7 39.3 40.1 44.7 39.1 37.5 40.1 38.9
 Low: 15.5 19.0 17.3 21.9 26.5 32.0 34.4 35.2 24.0 24.0 34.2 35.7

LEGENDS
 1.10 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded areas indicate recessions

2014-16 PROJECTIONS
 Price Gain Ann'l Total
 High 65 (+70%) 18%
 Low 50 (+30%) 11%

Insider Decisions
 to Buy A M J J A S O N D
 Options 2 0 0 0 0 0 0 0 0 0 0 0
 to Sell 2 0 0 0 0 0 2 0 1 0

Institutional Decisions
 1Q2010 2Q2010 3Q2010
 to Buy 104 110 109
 to Sell 103 116 96
 Hld's(000) 46225 46214 46899



| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC | 14-16 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------------------------|-------|
| 19.32 | 21.91 | 22.75 | 23.36 | 18.71 | 11.25 | 19.04 | 15.32 | 15.25 | 23.89 | 34.98 | 33.73 | 32.64 | 36.41 | 29.88 | 30.42 | 33.25 | 34.45 | Revenues per sh ^A | 37.95 |
| 2.33 | 2.49 | 2.42 | 2.65 | 2.29 | 2.86 | 3.31 | 3.39 | 3.47 | 3.29 | 4.20 | 4.50 | 4.65 | 4.68 | 4.90 | 5.05 | 5.20 | 5.40 | "Cash Flow" per sh | 5.90 |
| 1.33 | 1.37 | 1.37 | 1.41 | .91 | 1.29 | 1.50 | 1.82 | 2.08 | 2.28 | 2.48 | 2.72 | 2.72 | 2.71 | 2.88 | 3.00 | 3.15 | 3.30 | Earnings per sh ^{A B} | 3.75 |
| 1.04 | 1.06 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.11 | 1.15 | 1.30 | 1.48 | 1.64 | 1.68 | 1.72 | 1.76 | 1.80 | 1.84 | Div'ds Decl'd per sh ^C | 1.96 |
| 2.17 | 2.37 | 2.59 | 2.05 | 2.51 | 2.92 | 2.83 | 3.30 | 2.46 | 3.44 | 3.44 | 3.26 | 3.39 | 4.84 | 6.14 | 6.54 | 2.55 | 1.30 | Cap'l Spending per sh | 5.05 |
| 10.12 | 10.56 | 10.99 | 11.42 | 11.59 | 11.50 | 12.19 | 12.52 | 14.66 | 18.06 | 19.29 | 20.71 | 21.74 | 21.48 | 22.95 | 23.24 | 24.70 | 25.25 | Book Value per sh ^D | 30.70 |
| 55.02 | 55.70 | 56.60 | 57.30 | 57.10 | 54.00 | 55.10 | 56.70 | 64.50 | 76.70 | 77.70 | 77.70 | 76.40 | 76.90 | 77.54 | 78.00 | 78.20 | 78.40 | Common Shs Outst'g ^E | 79.00 |
| 12.6 | 13.8 | 14.7 | 13.9 | 21.4 | 13.6 | 14.6 | 12.5 | 12.5 | 13.1 | 14.3 | 13.5 | 14.7 | 12.3 | 11.2 | 12.9 | 12.9 | 12.9 | Avg Ann'l P/E Ratio | 15.0 |
| .84 | .86 | .85 | .72 | 1.22 | .88 | .75 | .68 | .71 | .69 | .76 | .73 | .78 | .74 | .75 | .79 | .79 | .79 | Relative P/E Ratio | 1.00 |
| 6.2% | 5.6% | 5.4% | 5.5% | 5.5% | 6.2% | 4.9% | 4.7% | 4.3% | 3.9% | 3.7% | 4.0% | 4.1% | 5.0% | 5.4% | 4.7% | | | Avg Ann'l Div'd Yield | 4.2% |

CAPITAL STRUCTURE as of 12/31/10
 Total Debt \$2705.0 mill. Due in 5 Yrs \$732.0 mill.
 LT Debt \$1673.0 mill. LT Interest \$109.0 mill.
 (Total interest coverage: 6.5x)

Leases, Uncapitalized Annual rentals \$95.0 mill.
Pension Assets-12/10 \$344.0 mill.
Oblig. \$531.0 mill.

Pfd Stock None
Common Stock 77,999,557 shs.
as of 1/31/11

MARKET CAP: \$3.0 billion (Mid Cap)

| CURRENT POSITION | 2008 | 2009 | 12/31/10 |
|------------------|------|------|----------|
| Cash Assets | 16 | 26 | 24 |
| Other | 2026 | 1974 | 2138 |
| Current Assets | 2042 | 2000 | 2162 |
| Accts Payable | 202 | 237 | 184 |
| Debt Due | 866 | 602 | 1032 |
| Other | 915 | 933 | 1212 |
| Current Liab. | 1983 | 1772 | 2428 |
| Fix. Chg. Cov. | 416% | 472% | 475% |

| ANNUAL RATES | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 of change (per sh) |
|--------------|--------------|-------------|----------------------------------|
| Revenues | 6.0% | 5.5% | 3.0% |
| "Cash Flow" | 6.5% | 6.0% | 3.0% |
| Earnings | 9.0% | 4.5% | 4.5% |
| Dividends | 5.0% | 7.5% | 2.0% |
| Book Value | 7.0% | 5.5% | 5.5% |

| Cal-endar | QUARTERLY REVENUES (\$mill.) | Full Year |
|-----------|------------------------------|-----------|
| | Mar.31 Jun.30 Sep.30 Dec.31 | |
| 2008 | 1012 444 539 805 | 2800 |
| 2009 | 995 377 307 638 | 2317 |
| 2010 | 1003 359 346 665 | 2373 |
| 2011 | 1100 365 360 775 | 2600 |
| 2012 | 1200 390 380 730 | 2700 |

| Cal-endar | EARNINGS PER SHARE ^B | Full Year |
|-----------|---------------------------------|-----------|
| | Mar.31 Jun.30 Sep.30 Dec.31 | |
| 2008 | 1.16 .30 .28 .97 | 2.71 |
| 2009 | 1.55 .26 .16 .91 | 2.88 |
| 2010 | 1.73 .17 .29 .81 | 3.00 |
| 2011 | 1.50 .35 .30 1.00 | 3.15 |
| 2012 | 1.60 .40 .45 .85 | 3.30 |

| Cal-endar | QUARTERLY DIVIDENDS PAID ^C | Full Year |
|-----------|---------------------------------------|-----------|
| | Mar.31 Jun.30 Sep.30 Dec.31 | |
| 2007 | .41 .41 .41 .41 | 1.64 |
| 2008 | .42 .42 .42 .42 | 1.68 |
| 2009 | .43 .43 .43 .43 | 1.72 |
| 2010 | .44 .44 .44 .44 | 1.76 |
| 2011 | .45 | |

BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 5.1% of common stock; off/dir., less than 1.0% (3/10 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

AGL Resources should perform well in 2011. The company is set to benefit from several factors this year. These include rate increases and the startup of the Golden Triangle project (discussed below). **Rate cases and expansion projects are likely to drive earnings in 2011 and beyond.** The Golden Triangle project, which came partially on line in 2010, is poised to add considerably to the top line over the next few years as it materially increases the company's storage capacity. The expansion should aid AGL Resources by growing its customer base, as well. The company has also filed several rate increase cases, the most recent one concerning Virginia Natural Gas. Given its favorable rate case history, we do not foresee any problems at this time. The rate rises are likely to bolster the bottom line out to the 2014-2016 time frame.

Mergers should play a key part in growth over the next few years, as well. 2010 was one of the most active years for consolidations in the utility industry. We expect this trend to accelerate in 2011, as many companies appear to be good acquisition targets. AGL Resources

has already become a forerunner in this segment, with the purchase of Nicor, set to be finalized within the next few months. Given the weak operating environment, and the fact that acquisitions are a quick way to increase market share, we expect AGL take advantage of further opportunities over the next few years.

The company is set to do well over the long term. One concern is the fact that production is at unprecedented levels, a result of the discovery of several shale gas reserves. The high storage levels, resulting in lower prices, are set to put downward pressure on the profitability of the storage and pipeline segments. But, the continued economic recovery, increased customer demand, and stringent expense control measures should ensure that the company will successfully navigate these obstacles.

Investors should take a look at this neutrally ranked issue. The dividend yield is above the industry average at this time, and we believe that the payout will be increased in the years ahead. AGL Resources appears to be a good pick for the long term.

Sahana Zutshi

March 11, 2011

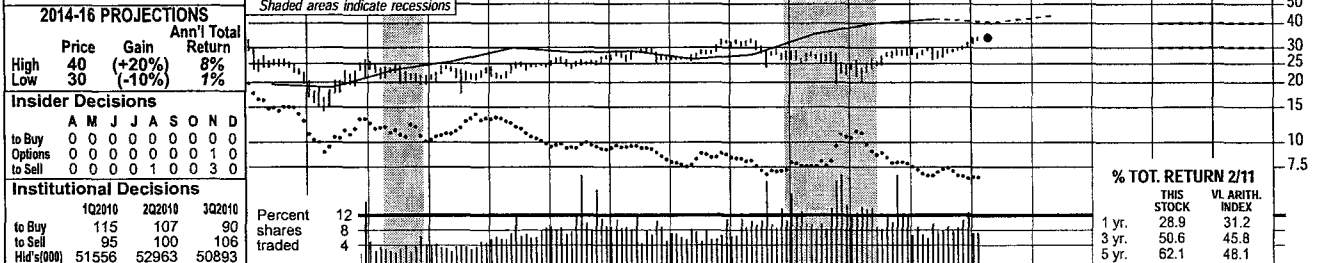
(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
 (B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, (\$0.83); '99, \$0.39; '00, \$0.13; '01, \$0.13; '03, (\$0.07); '08, \$0.13. Next earnings report due late April.
 (C) Dividends historically paid early March, June, Sept., and Dec. = Div'd reinvest. plan available. (D) Includes intangibles. In 2010: \$418 million, \$5.35/share.
 (E) In millions.
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| | |
|------------------------------|-----|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 75 |
| Earnings Predictability | 95 |

To subscribe call 1-800-833-0046.

ATMOS ENERGY CORP. NYSE-ATO

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| TIMELINESS 3 Raised 2/25/11 | | High: 26.3 | 25.8 | 24.5 | 25.5 | 27.6 | 30.0 | 33.1 | 33.5 | 29.3 | 30.3 | 32.0 | 34.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------|--|------------|------|------|------|------|------|------|------|------|------|------|------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|



| Insider Decisions | Institutional Decisions | Percent shares traded | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------------------|---|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|-------|-------|-------|-------|
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 115, to Sell: 95, to Hold: 51556 | 12, 8, 4 | 35.36 | 22.82 | 54.39 | 46.50 | 61.75 | 75.27 | 66.03 | 79.52 | 53.69 | 53.12 | 52.95 | 54.15 | 51.00 | 54.15 | 51.00 | 54.15 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 107, to Sell: 100, to Hold: 52963 | 12, 8, 4 | 3.03 | 3.39 | 3.23 | 2.91 | 3.90 | 4.26 | 4.14 | 4.19 | 4.29 | 4.64 | 4.85 | 5.10 | 5.10 | 5.10 | 5.10 | 5.10 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 1.47 | 1.45 | 1.71 | 1.58 | 1.72 | 2.00 | 1.94 | 2.00 | 1.97 | 2.16 | 2.30 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 1.16 | 1.18 | 1.20 | 1.22 | 1.24 | 1.26 | 1.28 | 1.30 | 1.32 | 1.34 | 1.36 | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 2.77 | 3.17 | 3.10 | 3.03 | 4.14 | 5.20 | 4.39 | 5.20 | 5.51 | 6.02 | 6.45 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 14.31 | 13.75 | 16.66 | 18.05 | 19.90 | 20.16 | 22.01 | 22.60 | 23.52 | 24.16 | 26.10 | 27.50 | 27.50 | 27.50 | 27.50 | 27.50 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 40.79 | 41.68 | 51.48 | 62.80 | 80.54 | 81.74 | 89.33 | 90.81 | 92.55 | 90.16 | 91.00 | 92.00 | 92.00 | 92.00 | 92.00 | 92.00 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 15.6 | 15.2 | 13.4 | 15.9 | 16.1 | 13.5 | 15.9 | 13.6 | 12.5 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | .80 | .83 | .76 | .84 | .86 | .73 | .84 | .82 | .83 | .84 | .84 | .84 | .84 | .84 | .84 | .84 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 5.1% | 5.4% | 5.2% | 4.9% | 4.5% | 4.7% | 4.2% | 4.8% | 5.3% | 4.7% | 4.7% | 4.7% | 4.7% | 4.7% | 4.7% | 4.7% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 1442.3 | 950.8 | 2799.9 | 2920.0 | 4973.3 | 6152.4 | 5898.4 | 7221.3 | 4969.1 | 4789.7 | 4820 | 4980 | 4980 | 4980 | 4980 | 4980 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 56.1 | 59.7 | 79.5 | 86.2 | 135.8 | 162.3 | 170.5 | 180.3 | 179.7 | 201.2 | 210 | 220 | 220 | 220 | 220 | 220 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 37.3% | 37.1% | 37.1% | 37.4% | 37.7% | 37.6% | 35.8% | 38.4% | 34.4% | 38.5% | 38.5% | 38.5% | 38.5% | 38.5% | 38.5% | 38.5% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 3.9% | 6.3% | 2.8% | 3.0% | 2.7% | 2.6% | 2.9% | 2.5% | 3.6% | 4.2% | 4.4% | 4.4% | 4.4% | 4.4% | 4.4% | 4.4% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 54.3% | 53.9% | 50.2% | 43.2% | 57.7% | 57.0% | 52.0% | 50.8% | 49.9% | 45.4% | 45.0% | 45.0% | 45.0% | 45.0% | 45.0% | 45.0% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 45.7% | 46.1% | 49.8% | 56.8% | 42.3% | 43.0% | 48.0% | 49.2% | 50.1% | 54.6% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 1276.3 | 1243.7 | 1721.4 | 1994.8 | 3785.5 | 3828.5 | 4092.1 | 4172.3 | 4346.2 | 3987.9 | 4315 | 4600 | 4600 | 4600 | 4600 | 4600 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 1335.4 | 1300.3 | 1516.0 | 1722.5 | 3374.4 | 3629.2 | 3836.8 | 4136.9 | 4439.1 | 4793.1 | 5100 | 5400 | 5400 | 5400 | 5400 | 5400 |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 5.9% | 6.8% | 6.2% | 5.8% | 5.3% | 6.1% | 5.9% | 5.9% | 6.9% | 6.9% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 8.8% | 8.3% | 9.2% | 9.0% | 8.5% | 8.5% | 8.5% | 8.5% | 8.5% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | 9.8% | 8.7% | 8.8% | 8.3% | 9.2% | 9.0% | 8.5% | 8.5% | 8.5% | 8.5% | 8.5% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 2.1% | 1.9% | 2.8% | 1.7% | 2.3% | 3.6% | 3.0% | 3.1% | 2.7% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| to Buy: 0, to Sell: 0, to Hold: 0 | to Buy: 90, to Sell: 106, to Hold: 50893 | 12, 8, 4 | 79% | 82% | 70% | 77% | 73% | 63% | 65% | 65% | 68% | 62% | 59% | 58% | 58% | 58% | 58% | 58% |

CAPITAL STRUCTURE as of 12/31/10
Total Debt \$2407.7 mill. Due in 5 Yrs \$1240.0 mill.
LT Debt \$1807.3 mill. LT Interest \$110.0 mill.
 (LT interest earned: 3.2x; total interest coverage: 3.1x)
Leases, Uncapitalized Annual rentals \$18.2 mill.
Pfd Stock None
Pension Assets-9/10 \$301.7 mill.
 Oblig. \$407.5 mill.
Common Stock 90,648,911 shs.
as of 2/3/11
MARKET CAP: \$3.1 billion (Mid Cap)

| CURRENT POSITION | 2009 | 2010 | 12/31/10 |
|------------------|-------|--------|----------|
| (\$MILL.) | | | |
| Cash Assets | 111.2 | 132.0 | 129.9 |
| Other | 717.7 | 743.2 | 1133.4 |
| Current Assets | 828.9 | 875.2 | 1263.3 |
| Accts Payable | 207.4 | 266.2 | 510.1 |
| Debt Due | 72.7 | 486.2 | 600.4 |
| Other | 457.3 | 413.7 | 349.9 |
| Current Liab. | 737.4 | 1166.1 | 1460.4 |
| Fix. Chg. Cov. | 416% | 440% | 435% |

| ANNUAL RATES | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 to '14-'16 |
|--------------------|--------------|-------------|--------------------------|
| of change (per sh) | | | |
| Revenues | 9.5% | 3.0% | 3.0% |
| "Cash Flow" | 4.0% | 5.5% | 4.0% |
| Earnings | 5.0% | 4.0% | 5.0% |
| Dividends | 2.0% | 1.5% | 2.0% |
| Book Value | 6.5% | 5.0% | 4.5% |

| Fiscal Year Ends | Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|------------------|--------|--------|--------|--------|------------------|
| 2008 | 1657.5 | 2484.0 | 1639.1 | 1440.7 | 7221.3 |
| 2009 | 1716.3 | 1821.4 | 780.8 | 650.6 | 4969.1 |
| 2010 | 1292.9 | 1940.3 | 770.2 | 786.3 | 4789.7 |
| 2011 | 1157.0 | 2025 | 820 | 818 | 4820 |
| 2012 | 1110 | 1970 | 1050 | 850 | 4980 |

| Fiscal Year Ends | Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|------------------|--------|--------|--------|--------|------------------|
| 2008 | .82 | 1.24 | d.07 | .02 | 2.00 |
| 2009 | .83 | 1.29 | .02 | d.17 | 1.97 |
| 2010 | 1.00 | 1.17 | d.03 | .02 | 2.16 |
| 2011 | .81 | 1.37 | .09 | .03 | 2.30 |
| 2012 | .97 | 1.35 | .06 | .02 | 2.40 |

| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|-----------|--------|--------|--------|--------|-----------|
| 2007 | .32 | .32 | .32 | .325 | 1.29 |
| 2008 | .325 | .325 | .325 | .33 | 1.31 |
| 2009 | .33 | .33 | .33 | .335 | 1.33 |
| 2010 | .335 | .335 | .335 | .34 | 1.35 |
| 2011 | .34 | | | | |

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2010 gas volumes: 323 MMcf. Breakdown: 59%, residential; 32%, commercial; 6%, industrial; and 3% other. 2010 depreciation rate 3.3%. Has around 4,915 employees. Officers and directors own 1.4% of common stock (12/10 Proxy). President and Chief Executive Officer: Kim R. Cocklin. Inc.: Texas. Address: Three Lincoln Centre, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy's share net plunged nearly 20% in the opening quarter of fiscal 2011, versus the year-earlier tally. The shortfall was attributable largely to the nonregulated segment, which experienced a modest unrealized net gain, relative to a much larger \$0.29 gain the previous year.

But there were some positives. The gas utility posted improved earnings, as it benefited from higher rates in such states as Missouri, Kansas, Kentucky, and Texas. But these results were held back a bit by a 10% drop in throughput, reflecting warmer weather. Meanwhile, the regulated transmission and storage unit enjoyed an increase in fixed-fee services and revenues from filings under the Texas Gas Reliability Infrastructure Program. Lower per-unit transportation margins were somewhat of an offset here.

Consolidated share net stands to advance almost 7%, to \$2.30, for the full fiscal year. This is based partly on our assumption that the nonregulated segment bounces back. Too, continued decent showings from the natural gas utility and regulated transmission and storage unit seem plausible. Next year, the bottom line may well increase at a similar rate, to \$2.40 a share, as we look for a further expansion of operating margins.

Steady, though unexciting, results appear to be in store for the company out to 2014-2016. The utility is one of the country's largest natural gas-only distributors. Moreover, the unregulated segments, especially pipelines, possess healthy overall growth prospects. Lastly, management may resume its successful strategy of purchasing less efficient utilities and shoring up their profitability via expense-reduction initiatives, rate relief, and aggressive marketing efforts. But excluding future acquisitions, due to many uncertainties, annual share-net growth may be in the mid-single-digit range over the 3- to 5-year horizon.

The good-quality stock boasts a dividend yield that is higher than many natural gas utility stocks covered by Value Line. Additional increases in the distribution, though modest, seem likely. Meanwhile, these shares are ranked Average (3) for Timeliness.

Frederick L. Harris, III March 11, 2011

| LACLEDE GROUP NYSE-LG | | | | RECENT PRICE | 38.30 | P/E RATIO | 15.0 (Trailing: 15.6 Median: 14.0) | RELATIVE P/E RATIO | 0.92 | DIV'D YLD | 4.3% | VALUE LINE | | | | | | | | |
|---|----------|-----------------|--|--------------|-------------|---------------|------------------------------------|--------------------|--------|-----------|--------|------------|--------|-------|-------|---------------------------------------|--------------------|-----------------------------------|-------|------|
| TIMELINESS | 3 | Raised 11/19/10 | High: 24.8 | 25.5 | 25.0 | 30.0 | 32.5 | 34.3 | 37.5 | 36.0 | 55.8 | 48.3 | 37.8 | 40.0 | | | Target Price Range | 2014 | 2015 | 2016 |
| SAFETY | 2 | Raised 6/20/03 | Low: 17.5 | 21.3 | 19.0 | 21.8 | 26.0 | 26.9 | 29.1 | 28.8 | 31.9 | 29.3 | 30.8 | 36.4 | | | | | | |
| TECHNICAL | 4 | Lowered 3/11/11 | LEGENDS | | | | | | | | | | | | | | | | | |
| BETA | .60 | (1.00 = Market) | 1.00 x Dividends p sh divided by Interest Rate | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | |
| Price | 55 | Gain (+45%) | Ann'l Total | | | | | | | | | | | | | | | | | |
| High | 55 | (+45%) | 13% | | | | | | | | | | | | | | | | | |
| Low | 40 | (+5%) | 6% | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | |
| A | M | J | J | A | S | O | N | D | | | | | | | | | | | | |
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | |
| to Sell | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | |
| 10/28/10 | 20/28/10 | 30/28/10 | | | | | | | | | | | | | | | | | | |
| to Buy | 55 | 63 | 54 | | | | | | | | | | | | | | | | | |
| to Sell | 60 | 58 | 53 | | | | | | | | | | | | | | | | | |
| Hld's (000) | 10279 | 10043 | 10165 | | | | | | | | | | | | | | | | | |
| Percent shares traded | 7.5 | 5 | 2.5 | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | |
| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | © VALUE LINE PUB. LLC 14-16 | | |
| 24.79 | 31.03 | 34.33 | 31.04 | 26.04 | 29.99 | 53.08 | 39.84 | 54.95 | 59.59 | 75.43 | 93.51 | 93.40 | 100.44 | 85.49 | 77.83 | 77.80 | 78.90 | Revenues per sh | 96.15 | |
| 2.55 | 3.29 | 3.32 | 3.02 | 2.56 | 2.68 | 3.00 | 2.56 | 3.15 | 2.79 | 2.98 | 3.81 | 3.87 | 4.22 | 4.56 | 4.11 | 4.35 | 4.50 | "Cash Flow" per sh | 5.20 | |
| 1.27 | 1.87 | 1.84 | 1.58 | 1.47 | 1.37 | 1.61 | 1.18 | 1.82 | 1.82 | 1.90 | 2.37 | 2.31 | 2.64 | 2.92 | 2.43 | 2.55 | 2.65 | Earnings per sh ^{A B} | 3.15 | |
| 1.24 | 1.26 | 1.30 | 1.32 | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 1.35 | 1.37 | 1.40 | 1.45 | 1.49 | 1.53 | 1.57 | 1.61 | 1.65 | Div'ds Decl'd per sh ^C | 1.80 | |
| 2.63 | 2.35 | 2.44 | 2.68 | 2.58 | 2.77 | 2.51 | 2.80 | 2.67 | 2.45 | 2.84 | 2.97 | 2.72 | 2.57 | 2.36 | 2.56 | 2.70 | 2.80 | Cap'l Spending per sh | 3.20 | |
| 13.05 | 13.72 | 14.26 | 14.57 | 14.96 | 14.99 | 15.26 | 15.07 | 15.65 | 16.96 | 17.31 | 18.85 | 19.79 | 22.12 | 23.32 | 24.02 | 24.95 | 25.55 | Book Value per sh ^D | 31.15 | |
| 17.42 | 17.56 | 17.56 | 17.63 | 18.88 | 18.88 | 18.88 | 18.96 | 19.11 | 20.98 | 21.17 | 21.36 | 21.65 | 21.99 | 22.17 | 22.29 | 22.50 | 23.00 | Common Shs Outst'g ^E | 26.00 | |
| 15.5 | 11.9 | 12.5 | 15.5 | 15.8 | 14.9 | 14.5 | 20.0 | 13.6 | 15.7 | 16.2 | 13.6 | 14.2 | 14.3 | 13.4 | 13.7 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 15.5 | |
| 1.04 | .75 | .72 | .81 | .90 | .97 | .74 | 1.09 | .78 | .83 | .86 | .73 | .75 | .86 | .89 | .87 | | | Relative P/E Ratio | 1.05 | |
| 6.3% | 5.6% | 5.6% | 5.4% | 5.8% | 6.6% | 5.7% | 5.7% | 5.4% | 4.7% | 4.4% | 4.3% | 4.4% | 3.9% | 3.9% | 4.7% | | | Avg Ann'l Div'd Yield | 3.8% | |
| CAPITAL STRUCTURE as of 12/31/10 | | | | 1002.1 | 755.2 | 1050.3 | 1250.3 | 1597.0 | 1997.6 | 2021.6 | 2209.0 | 1895.2 | 1735.0 | 1750 | 1815 | Revenues (\$mill) ^A | 2500 | | | |
| Total Debt \$461.8 mill. Due in 5 Yrs \$155.0 mill. | | | | 30.5 | 22.4 | 34.6 | 36.1 | 40.1 | 50.5 | 49.8 | 57.6 | 64.3 | 54.0 | 57.5 | 61.0 | Net Profit (\$mill) | 80.0 | | | |
| LT Debt \$364.3 mill. LT Interest \$20.0 mill. | | | | 32.7% | 35.4% | 35.0% | 34.8% | 34.1% | 32.5% | 33.4% | 31.3% | 33.6% | 33.4% | 34.5% | 35.0% | Income Tax Rate | 35.0% | | | |
| (Total interest coverage: 4.0x) | | | | 3.0% | 3.0% | 3.3% | 2.9% | 2.5% | 2.5% | 2.5% | 2.6% | 3.4% | 3.1% | 3.3% | 3.4% | Net Profit Margin | 3.2% | | | |
| Leases, Uncapitalized Annual rentals \$9 mill. | | | | 49.5% | 47.5% | 50.4% | 51.6% | 48.1% | 49.5% | 45.3% | 44.4% | 42.9% | 40.5% | 40.0% | 40.0% | Long-Term Debt Ratio | 40.0% | | | |
| Pension Assets-9/10 \$240.9 mill. | | | | 50.2% | 52.3% | 49.4% | 48.3% | 51.8% | 50.4% | 54.6% | 55.5% | 57.1% | 59.5% | 60.0% | 60.0% | Common Equity Ratio | 60.0% | | | |
| Oblig. \$398.4 mill. | | | | 574.1 | 546.6 | 605.0 | 737.4 | 707.9 | 798.9 | 784.5 | 876.1 | 906.3 | 899.9 | 935 | 980 | Total Capital (\$mill) | 1350 | | | |
| Pfd Stock None | | | | 602.5 | 594.4 | 621.2 | 646.9 | 679.5 | 763.8 | 793.8 | 823.2 | 855.9 | 884.1 | 915 | 945 | Net Plant (\$mill) | 1250 | | | |
| Common Stock 22,384,705 shs. as of 1/27/11 | | | | 6.9% | 6.0% | 7.4% | 6.6% | 7.6% | 8.4% | 8.5% | 8.1% | 8.7% | 7.4% | 7.5% | 7.5% | Return on Total Cap'l | 7.0% | | | |
| MARKET CAP: \$850 million (Small Cap) | | | | 10.5% | 7.8% | 11.5% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.4% | 10.1% | 10.5% | 10.5% | Return on Shr. Equity | 10.0% | | | |
| CURRENT POSITION | | | | 10.5% | 7.8% | 11.6% | 10.1% | 10.9% | 12.5% | 11.6% | 11.8% | 12.4% | 10.1% | 10.5% | 10.5% | Return on Com Equity | 10.0% | | | |
| (SMILL.) | | | | 1.8% | NMF | 3.1% | 2.7% | 3.1% | 5.1% | 4.3% | 5.2% | 5.9% | 3.6% | 4.0% | 4.0% | Retained to Com Eq | 4.5% | | | |
| 2009 | | | | 83% | 113% | 74% | 73% | 72% | 59% | 63% | 56% | 53% | 64% | 63% | 62% | All Div'ds to Net Prof | 57% | | | |
| 2010 | | | | | | | | | | | | | | | | | | | | |
| 12/31/10 | | | | | | | | | | | | | | | | | | | | |
| CASH ASSETS | | | | 74.6 | 86.9 | 25.1 | | | | | | | | | | | | | | |
| Other | | | | 294.2 | 327.3 | 412.6 | | | | | | | | | | | | | | |
| Current Assets | | | | 368.8 | 414.2 | 437.7 | | | | | | | | | | | | | | |
| ACCTS PAYABLE | | | | 72.8 | 95.6 | 125.3 | | | | | | | | | | | | | | |
| Debt Due | | | | 129.8 | 129.6 | 97.5 | | | | | | | | | | | | | | |
| Other | | | | 96.5 | 108.7 | 92.5 | | | | | | | | | | | | | | |
| Current Liab. | | | | 299.1 | 333.9 | 315.3 | | | | | | | | | | | | | | |
| Fix. Chg. Cov. | | | | 420% | 391% | 410% | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 | | | | | | | | | | | | | | |
| of change (per sh) | | | | 11.5% | 7.0% | 1.5% | | | | | | | | | | | | | | |
| Revenues | | | | 4.5% | 7.5% | 3.5% | | | | | | | | | | | | | | |
| "Cash Flow" | | | | 6.0% | 7.5% | 3.0% | | | | | | | | | | | | | | |
| Earnings | | | | 1.5% | 2.5% | 2.5% | | | | | | | | | | | | | | |
| Dividends | | | | 4.5% | 7.0% | 5.0% | | | | | | | | | | | | | | |
| Book Value | | | | | | | | | | | | | | | | | | | | |
| Fiscal Year Ends | | | | Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year | | | | | | | | | | | | |
| 2008 | | | | 504.0 | 747.7 | 505.5 | 451.8 | 2209.0 | | | | | | | | | | | | |
| 2009 | | | | 674.3 | 659.1 | 309.9 | 251.9 | 1895.2 | | | | | | | | | | | | |
| 2010 | | | | 491.2 | 635.3 | 324.5 | 284.0 | 1735.0 | | | | | | | | | | | | |
| 2011 | | | | 444.2 | 645.8 | 340 | 320 | 1750 | | | | | | | | | | | | |
| 2012 | | | | 490 | 650 | 388 | 287 | 1815 | | | | | | | | | | | | |
| Fiscal Year Ends | | | | Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year | | | | | | | | | | | | |
| 2008 | | | | .99 | 1.39 | .41 | d.14 | 2.64 | | | | | | | | | | | | |
| 2009 | | | | 1.42 | 1.40 | .31 | d.22 | 2.92 | | | | | | | | | | | | |
| 2010 | | | | 1.03 | 1.26 | .21 | d.07 | 2.43 | | | | | | | | | | | | |
| 2011 | | | | 1.05 | 1.30 | .30 | d.10 | 2.55 | | | | | | | | | | | | |
| 2012 | | | | 1.05 | 1.36 | .36 | d.12 | 2.65 | | | | | | | | | | | | |
| Cal-endar | | | | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year | | | | | | | | | | | | |
| 2007 | | | | .365 | .365 | .365 | .365 | 1.46 | | | | | | | | | | | | |
| 2008 | | | | .375 | .375 | .375 | .375 | 1.50 | | | | | | | | | | | | |
| 2009 | | | | .385 | .385 | .385 | .385 | 1.54 | | | | | | | | | | | | |
| 2010 | | | | .395 | .395 | .395 | .395 | 1.58 | | | | | | | | | | | | |
| 2011 | | | | .405 | | | | | | | | | | | | | | | | |

to Buy
Options
to Sell

102810 202810 302810

Percent shares traded

7.5
5
2.5

% TOT. RETURN 2/11

THIS STOCK VL ARITH INDEX

1 yr. 24.3 31.2
3 yr. 29.6 45.8
5 yr. 43.7 48.1

128
96
80
64
48
40
32
24
16
12

1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

24.79 31.03 34.33 31.04 26.04 29.99 53.08 39.84 54.95 59.59 75.43 93.51 93.40 100.44 85.49 77.83 77.80 78.90

2.55 3.29 3.32 3.02 2.56 2.68 3.00 2.56 3.15 2.79 2.98 3.81 3.87 4.22 4.56 4.11 4.35 4.50

1.27 1.87 1.84 1.58 1.47 1.37 1.61 1.18 1.82 1.82 1.90 2.37 2.31 2.64 2.92 2.43 2.55 2.65

1.24 1.26 1.30 1.32 1.34 1.34 1.34 1.34 1.34 1.35 1.37 1.40 1.45 1.49 1.53 1.57 1.61 1.65

2.63 2.35 2.44 2.68 2.58 2.77 2.51 2.80 2.67 2.45 2.84 2.97 2.72 2.57 2.36 2.56 2.70 2.80

13.05 13.72 14.26 14.57 14.96 14.99 15.26 15.07 15.65 16.96 17.31 18.85 19.79 22.12 23.32 24.02 24.95 25.55

17.42 17.56 17.56 17.63 18.88 18.88 18.88 18.96 19.11 20.98 21.17 21.36 21.65 21.99 22.17 22.29 22.50 23.00

15.5 11.9 12.5 15.5 15.8 14.9 14.5 20.0 13.6 15.7 16.2 13.6 14.2 14.3 13.4 13.7

1.04 .75 .72 .81 .90 .97 .74 1.09 .78 .83 .86 .73 .75 .86 .89 .87

6.3% 5.6% 5.6% 5.4% 5.8% 6.6% 5.7% 5.7% 5.4% 4.7% 4.4% 4.3% 4.4% 3.9% 3.9% 4.7%

1002.1 755.2 1050.3 1250.3 1597.0 1997.6 2021.6 2209.0 1895.2 1735.0 1750 1815

30.5 22.4 34.6 36.1 40.1 50.5 49.8 57.6 64.3 54.0 57.5 61.0

32.7% 35.4% 35.0% 34.8% 34.1% 32.5% 33.4% 31.3% 33.6% 33.4% 34.5% 35.0%

3.0% 3.0% 3.3% 2.9% 2.5% 2.5% 2.5% 2.6% 3.4% 3.1% 3.3% 3.4%

49.5% 47.5% 50.4% 51.6% 48.1% 49.5% 45.3% 44.4% 42.9% 40.5% 40.0% 40.0%

50.2% 52.3% 49.4% 48.3% 51.8% 50.4% 54.6% 55.5% 57.1% 59.5% 60.0% 60.0%

574.1 546.6 605.0 737.4 707.9 798.9 784.5 876.1 906.3 899.9 935 980

602.5 594.4 621.2 646.9 679.5 763.8 793.8 823.2 855.9 884.1 915 945

6.9% 6.0% 7.4% 6.6% 7.6% 8.4% 8.5% 8.1% 8.7% 7.4% 7.5% 7.5%

10.5% 7.8% 11.5% 10.1% 10.9% 12.5% 11.6% 11.8% 12.4% 10.1% 10.5% 10.5%

10.5% 7.8% 11.6% 10.1% 10.9% 12.5% 11.6% 11.8% 12.4% 10.1% 10.5% 10.5%

1.8% NMF 3.1% 2.7% 3.1% 5.1% 4.3% 5.2% 5.9% 3.6% 4.0% 4.0%

83% 113% 74% 73% 72% 59% 63% 56% 53% 64% 63% 62%

74.6 86.9 25.1
294.2 327.3 412.6
368.8 414.2 437.7

72.8 95.6 125.3
129.8 129.6 97.5
96.5 108.7 92.5

299.1 333.9 315.3
420% 391% 410%

Past 10 Yrs. 11.5%
Past 5 Yrs. 7.0%
Est'd '08-'10 to '14-'16 1.5%

"Cash Flow" 4.5%
Earnings 6.0%
Dividends 1.5%
Book Value 4.5%

Dec.31 Mar.31 Jun.30 Sep.30

2008 504.0 747.7 505.5 451.8 2209.0
2009 674.3 659.1 309.9 251.9 1895.2
2010 491.2 635.3 324.5 284.0 1735.0
2011 444.2 645.8 340 320 1750
2012 490 650 388 287 1815

Dec.31 Mar.31 Jun.30 Sep.30

2008 .99 1.39 .41 d.14 2.64
2009 1.42 1.40 .31 d.22 2.92
2010 1.03 1.26 .21 d.07 2.43
2011 1.05 1.30 .30 d.10 2.55
2012 1.05 1.36 .36 d.12 2.65

Mar.31 Jun.30 Sep.30 Dec.31

2007 .365 .365 .365 .365 1.46
2008 .375 .375 .375 .375 1.50
2009 .385 .385 .385 .385 1.54
2010 .395 .395 .395 .395 1.58
2011 .405

68%; commercial and industrial, 24%; transportation, 2%; other, 6%. Has around 1,700 employees. Officers and directors own approximately 8% of common shares (1/11 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

the service territory, based in eastern Missouri, is in a mature phase, we expect more of the same going forward. Laclede Energy Resources has promising growth potential, but that unit has contributed only a small portion to total profits, on a historical basis. Consequently, Laclede's annual share-net advances may only be in the mid-single-digit range over the 3- to 5-year horizon. A major acquisition could brighten things, but management appears to be satisfied with the status quo, right now.

The equity's main attraction is the dividend yield, which is a bit higher than the average of all natural gas utility stocks tracked by Value Line. The payout should continue to be well-covered by the company's earnings, but future hikes may be moderate, at best. That's largely because of Laclede Gas' unspectacular long-term expansion prospects.

Total return possibilities are not exciting. Indeed, these shares are trading near our 2014-2016 Target Price Range. The dividend will probably continue to grow at a slow rate, as well.

Frederick L. Harris, III March 11, 2011

Share net for Laclede Group was a couple of pennies higher in the opening quarter of fiscal 2011 (ends September 30th) than the year-earlier tally. Laclede Gas, the core subsidiary, benefited partly from a rate increase that went into effect on September 1, 2010. Too, operating costs here were down, made possible by effective collections efforts and expense-containment initiatives. Meanwhile, profits for Laclede Energy Resources were somewhat better, since results for the first quarter of last year include net unrealized losses on energy-related derivatives. But margins here were lower, as narrower regional price differentials continued (given a less-than-optimal economic environment).

In all, consolidated share net could advance roughly 5%, to \$2.55, in fiscal 2011. Assuming further expansion of operating margins, the bottom line may well rise at a similar rate, to \$2.65 a share, the next year.

Prospects out to 2014-2016 are not exciting. The customer base for the natural gas distributor has tended to grow at a sluggish annual rate for some time. Since

| | |
|-------------------|--|
| <p> E </p> | |
|-------------------|--|

| | Target Price | Price Range |
|------|--------------|-------------|
| 2014 | 2015 | 2016 |
| | | 120 |
| | | 100 |
| | | 80 |
| | | 64 |

[illegible]

| | | | | | |
|--|--|--|--|--|----|
| | | | | | 24 |
| | | | | | 20 |
| | | | | | 16 |
| | | | | | 12 |

| THIS STOCK | VL ARITH. INDEX |
|------------|-----------------|
| 10.7 | 31.2 |
| 24.4 | 45.8 |
| 63.5 | 48.1 |

| | | | | | | | | | | | | | | |
|--|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|------------------------|-------|
| CAPITAL STRUCTURE as of 12/31/10 | 650.3 | 641.4 | 611.3 | 707.6 | 910.5 | 1013.2 | 1033.2 | 1037.9 | 1012.7 | 812.1 | 820 | 850 | Revenues (\$mill) | 950 |
| Total Debt \$859.1 mill. Due in 5 Yrs \$260 mill. | 50.2 | 43.8 | 46.0 | 50.6 | 58.1 | 65.2 | 74.5 | 68.5 | 75.1 | 72.7 | 75.0 | 78.0 | Net Profit (\$mill) | 86.0 |
| LT Debt \$591.7 mill. LT Interest \$41.0 mill. | 35.4% | 34.9% | 33.7% | 34.4% | 36.0% | 36.3% | 37.2% | 36.9% | 38.3% | 31.4% | 38.0% | 38.0% | Income Tax Rate | 38.0% |
| (Total interest coverage: 7.0x) | 7.7% | 6.8% | 7.5% | 7.1% | 6.4% | 6.4% | 7.2% | 6.6% | 7.4% | 8.9% | 9.5% | 9.5% | Net Profit Margin | 9.0% |
| Pension Assets-12/10 \$219 mill. | 43.0% | 47.6% | 49.7% | 46.0% | 47.0% | 46.3% | 46.3% | 44.9% | 47.7% | 46.5% | 43% | 41% | Long-Term Debt Ratio | 34% |
| Oblig. \$337.3 mill. | 53.2% | 51.5% | 50.3% | 54.0% | 53.0% | 53.7% | 53.7% | 55.1% | 52.3% | 53.5% | 57% | 59% | Common Equity Ratio | 66% |
| Pfd Stock None | 880.5 | 937.3 | 1006.6 | 1052.5 | 1108.4 | 1116.5 | 1106.8 | 1140.4 | 1261.8 | 1294.8 | 1270 | 1270 | Total Capital (\$mill) | 1285 |
| | 965.0 | 995.6 | 1205.9 | 1318.4 | 1425.1 | 1495.9 | 1549.1 | 1670.1 | 1670.1 | 1854.2 | 2005 | 2165 | Net Plant (\$mill) | 2495 |
| Common Stock 26,668,712 shares | 6.9% | 5.9% | 5.7% | 5.9% | 6.5% | 7.1% | 8.5% | 7.7% | 7.3% | 5.6% | 6.0% | 6.0% | Return on Total Cap'l | 6.5% |
| | 10.0% | 8.9% | 9.1% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | 11.4% | 10.5% | 10.5% | 10.5% | Return on Shr. Equity | 10.0% |
| MARKET CAP \$1.2 billion (Mid Cap) | 10.2% | 8.5% | 9.0% | 8.9% | 9.9% | 10.9% | 12.5% | 10.9% | 11.4% | 10.5% | 10.5% | 10.5% | Return on Com Equity | 10.0% |
| | 3.5% | 1.9% | 2.6% | 2.7% | 3.7% | 4.5% | 6.0% | 4.5% | 5.0% | 4.0% | 4.0% | 4.0% | Retained to Com Eo | 4.0% |

| | | | | | |
|---|-----|-----|-----|------------------------|-----|
| 56% | 61% | 62% | 61% | All Div'ds to Net Prof | 59% |
| Owns local underground storage. Rev. breakdown: residential, 57%; commercial, 26%; industrial, gas transportation, and other, 17%. Employs 1,061. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/10 proxy). CEO: Gregg S. Kantor. Inc., Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com . | | | | | |

hope has finally dawned for the Palomar project. Williams Northwest Pipeline was brought in to join the venture, which greatly increases the chance of a successful completion. The company is currently signing up shippers, as the Palomar

Pipeline is likely to begin operations in late 2014. Investors should note that as a result of previous problems on the project, the company's stake has been reduced from 50% to 33%, limiting future benefits. **Rate cases are likely to play a part in earnings growth.** It is quite likely that

Northwest will choose to file for a rate increase in Oregon in the third quarter. The state regulatory body is quite sympathetic, and it has been eight years since the last increase. This raises the likelihood of a favorable ruling. Management has indicated a rate case is in the works in Washington.

as well, with a decision expected late 2011 or early 2012. No other details are known. **There are better options in the industry at this time.** This neutrally ranked stock has limited long-term appreciation potential, and its dividend yield is only marginally above the industry average.

Sahana Zutshi March 11, 2011

| | |
|------------------------------|-----|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 70 |
| Earnings Predictability | 95 |

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| PIEDMONT NAT'L GAS NYSE-PNY | | | | RECENT PRICE | 29.24 | P/E RATIO | 18.3 | (Trailing: 19.1 Median: 17.0) | RELATIVE P/E RATIO | 1.12 | DIV'D YLD | 3.8% | VALUE LINE | | | | | | | | | | | | | | | | | | | | |
|---|-------|-----------------|---|--------------|-------|-----------|-------|-------------------------------|--------------------|-------|-----------|-------|------------|-------|-------|---|-------------|-----------------------------------|--|------------------|--------|--------|--------|--------|--------|-------|-------|--------------------------------|-------|--|--|--|--|
| TIMELINESS | 4 | Raised 3/11/11 | High: 19.7 | 19.0 | 19.0 | 22.0 | 24.3 | 25.8 | 28.4 | 28.0 | 35.3 | 32.0 | 30.1 | 29.8 | 27.6 | Target Price Range | 2014 | 2015 | 2016 | | | | | | | | | | | | | | |
| SAFETY | 2 | New 7/27/90 | Low: 11.8 | 14.6 | 13.7 | 16.6 | 19.2 | 21.3 | 23.2 | 22.0 | 21.7 | 20.7 | 23.9 | 27.6 | | | | | | | | | | | | | | | | | | | |
| TECHNICAL | 3 | Lowered 7/2/10 | LEGENDS 1.40 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 11/04 Options: Yes Shaded areas indicate recessions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BETA | .65 | (1.00 = Market) | 2-for-1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Price | 40 | Gain | Ann'l Total | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| High | 40 | (+35%) | 12% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Low | 30 | (+5%) | 5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | M | J | J | A | S | O | N | D | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | | | | | | | | | | | | | | | | | | | | | | | |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy | 70 | 84 | 87 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| to Sell | 77 | 95 | 81 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hld's(000) | 33448 | 32253 | 33260 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Percent shares traded | 7.5 | 5 | 2.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| % TOT. RETURN 2/11 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| THIS STOCK VL ARITH. INDEX | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 yr. 16.8 31.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 yr. 32.7 45.8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 yr. 42.5 48.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| © VALUE LINE PUBL. LLC 14-16 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Revenues per sh ^A | 26.15 | | | | | | | | | | | | | | |
| 8.76 | 11.59 | 12.84 | 12.45 | 10.97 | 13.01 | 17.06 | 12.57 | 18.14 | 19.95 | 22.96 | 25.80 | 23.37 | 28.52 | 22.36 | 21.48 | 22.40 | 23.25 | "Cash Flow" per sh | 3.45 | | | | | | | | | | | | | | |
| 1.25 | 1.49 | 1.62 | 1.72 | 1.70 | 1.77 | 1.81 | 1.81 | 2.04 | 2.31 | 2.43 | 2.51 | 2.64 | 2.77 | 3.01 | 2.91 | 3.00 | 3.15 | Earnings per sh ^{AB} | 1.90 | | | | | | | | | | | | | | |
| .73 | .84 | .93 | .98 | .93 | 1.01 | 1.01 | .95 | 1.11 | 1.27 | 1.32 | 1.28 | 1.40 | 1.49 | 1.67 | 1.55 | 1.60 | 1.70 | Div'ds Decl'd per sh ^C | 1.31 | | | | | | | | | | | | | | |
| .54 | .57 | .61 | .64 | .68 | .72 | .76 | .80 | .82 | .85 | .91 | .95 | .99 | 1.03 | 1.07 | 1.11 | 1.15 | 1.19 | Cap'l Spending per sh | 2.95 | | | | | | | | | | | | | | |
| 1.72 | 1.64 | 1.52 | 1.48 | 1.58 | 1.65 | 1.29 | 1.21 | 1.16 | 1.85 | 2.50 | 2.74 | 1.85 | 2.47 | 1.76 | 2.75 | 4.40 | 2.80 | Book Value per sh ^D | 14.90 | | | | | | | | | | | | | | |
| 6.16 | 6.53 | 6.95 | 7.45 | 7.86 | 8.26 | 8.63 | 8.91 | 9.36 | 11.15 | 11.53 | 11.83 | 11.99 | 12.11 | 12.67 | 13.35 | 13.60 | 14.15 | Common Shs Outst'g ^E | 69.00 | | | | | | | | | | | | | | |
| 57.67 | 59.10 | 60.39 | 61.48 | 62.59 | 63.83 | 64.93 | 66.18 | 67.31 | 76.67 | 76.70 | 74.61 | 73.23 | 73.26 | 73.27 | 72.28 | 71.50 | 71.00 | | | | | | | | | | | | | | | | |
| 13.8 | 13.9 | 13.6 | 16.3 | 17.7 | 14.3 | 16.7 | 18.4 | 16.7 | 16.6 | 17.9 | 19.2 | 18.7 | 18.2 | 15.4 | 17.1 | Bold figures are Value Line estimates | | Avg Ann'l P/E Ratio | 18.0 | | | | | | | | | | | | | | |
| .92 | .87 | .78 | .85 | 1.01 | .93 | .86 | 1.01 | .95 | .88 | .95 | 1.04 | .99 | 1.10 | 1.03 | 1.08 | | | Relative P/E Ratio | 1.20 | | | | | | | | | | | | | | |
| 5.4% | 4.9% | 4.8% | 4.0% | 4.1% | 5.0% | 4.5% | 4.6% | 4.4% | 4.1% | 3.8% | 3.9% | 3.8% | 3.8% | 4.1% | 4.2% | | | Avg Ann'l Div'd Yield | 3.7% | | | | | | | | | | | | | | |
| CAPITAL STRUCTURE as of 10/31/10 | | | | | | | | | | | | | | | | 1107.9 | 832.0 | 1220.8 | 1529.7 | 1761.1 | 1924.6 | 1711.3 | 2089.1 | 1638.1 | 1552.3 | 1600 | 1650 | Revenues (\$mill) ^A | 1805 | | | | |
| Total Debt \$973.9 mill. Due in 5 Yrs \$160.0 mill. | | | | | | | | | | | | | | | | 65.5 | 62.2 | 74.4 | 95.2 | 101.3 | 97.2 | 104.4 | 110.0 | 122.8 | 111.8 | 115 | 120 | Net Profit (\$mill) | 130 | | | | |
| LT Debt \$671.9 mill. LT Interest \$50.2 mill. | | | | | | | | | | | | | | | | 34.6% | 33.1% | 34.8% | 35.1% | 33.7% | 34.2% | 33.0% | 36.3% | 28.5% | 23.4% | 30.0% | 30.0% | Income Tax Rate | 30.0% | | | | |
| (LT interest earned: 4.1x; total interest coverage: 3.5x) | | | | | | | | | | | | | | | | 5.9% | 7.5% | 6.1% | 6.2% | 5.8% | 5.0% | 6.1% | 5.3% | 7.5% | 7.2% | 7.2% | 7.3% | Net Profit Margin | 7.3% | | | | |
| Pension Assets-10/10 \$228.3 mill. | | | | | | | | | | | | | | | | 47.6% | 43.9% | 42.2% | 43.6% | 41.4% | 48.3% | 48.4% | 47.2% | 44.1% | 41.0% | 42.0% | 41.0% | Long-Term Debt Ratio | 40.5% | | | | |
| Oblig. \$211.0 mill. | | | | | | | | | | | | | | | | 56.4% | 56.1% | 57.8% | 56.4% | 58.6% | 51.7% | 51.6% | 52.8% | 55.9% | 59.0% | 58.0% | 59.0% | Common Equity Ratio | 59.5% | | | | |
| Pfd Stock None | | | | | | | | | | | | | | | | 1069.4 | 1051.6 | 1090.2 | 1514.9 | 1509.2 | 1707.9 | 1703.3 | 1681.5 | 1660.5 | 1636.9 | 1675 | 1700 | Total Capital (\$mill) | 1725 | | | | |
| Common Stock 72,310,563 shs. as of 12/17/10 | | | | | | | | | | | | | | | | 1114.7 | 1158.5 | 1812.3 | 1849.8 | 1939.1 | 2075.3 | 2141.5 | 2240.8 | 2304.4 | 2437.7 | 2450 | 2500 | Net Plant (\$mill) | 2650 | | | | |
| MARKET CAP: \$2.1 billion (Mid Cap) | | | | | | | | | | | | | | | | 7.9% | 7.8% | 8.6% | 7.8% | 8.2% | 7.2% | 7.8% | 8.2% | 9.1% | 8.4% | 8.0% | 8.5% | Return on Total Cap'l | 9.0% | | | | |
| CURRENT POSITION | | | | | | | | | | | | | | | | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | 13.2% | 11.6% | 12.0% | 12.0% | Return on Shr. Equity | 12.5% | | | | |
| 2008 | | | | | | | | | | | | | | | | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | 11.0% | 11.9% | 12.4% | 13.2% | 11.6% | 12.0% | 12.0% | Return on Com Equity | 12.5% | | | | |
| 2009 | | | | | | | | | | | | | | | | 3.0% | 1.7% | 3.1% | 3.7% | 3.6% | 2.8% | 3.5% | 3.9% | 4.8% | 3.3% | 3.5% | 3.5% | Retained to Com Eq | 4.0% | | | | |
| 10/31/10 | | | | | | | | | | | | | | | | 75% | 83% | 74% | 66% | 68% | 74% | 70% | 69% | 64% | 72% | 70% | | All Div'ds to Net Prof | 68% | | | | |
| (\$MILL.) | | | | | | | | | | | | | | | | BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 960,801 customers in North Carolina, South Carolina, and Tennessee. 2010 revenue mix: residential (48%), commercial (28%), industrial (7%), other (17%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 64.4% of revenues. '10 deprec. rate: 3.2%. Estimated plant age: 9.3 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,821 employees. Off./dir. own about 1.5% of common stock, State Street; 6.4% (1/10 proxy). Chrmn., CEO, & Pres.: Thomas E. Skains, Inc.; NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmonting.com. | | | | | | | | | | | | | | | | | |
| Cash Assets | | | | | | | | | | | | | | | | 7.0 | 7.6 | 5.6 | The overall financial position is in good shape. Cash declined about 25% over the course of last year, to roughly \$5.6 million. Meanwhile, the company's debt load also decreased 8.5%, to approximately \$670 million. Too, PNY has been taking advantage of the favorable interest-rate environment by refinancing some of its higher-yielding notes. This should help to improve the company's operating metrics. And, Piedmont used the proceeds from last year's Southstar divestiture to repurchase about a million shares of stock, providing a benefit to share net moving forward. | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | 593.8 | 505.6 | 322.2 | We have introduced our 2012 share-net estimate at \$1.70. Continued customer additions and somewhat better prospects for regional economic growth ought to contribute to the quickening pace of earnings advances next year. | | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | | | | 600.8 | 513.2 | 327.8 | Good-quality shares of Piedmont have appeal as an income vehicle. However, total return potential for the pull to 2014-2016 is below average. And the stock is still ranked to lag the broader-market averages in the coming year. | | | | | | | | | | | | | | |
| Accts Payable | | | | | | | | | | | | | | | | 132.3 | 115.4 | 115.7 | Bryan J. Fong | | | | | | | | | | | | | | |
| Debt Due | | | | | | | | | | | | | | | | 436.5 | 366.0 | 302.0 | March 11, 2011 | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | | | 112.7 | 118.8 | 80.9 | | | | | | | | | | | | | | | |
| Current Liab. | | | | | | | | | | | | | | | | 681.5 | 600.2 | 498.6 | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. | | | | | | | | | | | | | | | | 341% | 316% | 316% | | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | | | | | | | | | | | | | Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 | | | | | | | | | | | | | | | |
| of change (per sh) | | | | | | | | | | | | | | | | 7.0% | 3.5% | 1.5% | | | | | | | | | | | | | | | |
| Revenues | | | | | | | | | | | | | | | | 7.0% | 3.5% | 1.5% | | | | | | | | | | | | | | | |
| "Cash Flow" | | | | | | | | | | | | | | | | 5.5% | 5.0% | 3.0% | | | | | | | | | | | | | | | |
| Earnings | | | | | | | | | | | | | | | | 5.0% | 5.0% | 3.5% | | | | | | | | | | | | | | | |
| Dividends | | | | | | | | | | | | | | | | 4.5% | 4.5% | 3.5% | | | | | | | | | | | | | | | |
| Book Value | | | | | | | | | | | | | | | | 5.0% | 3.5% | 3.0% | | | | | | | | | | | | | | | |
| Fiscal Year Ends | | | | | | | | | | | | | | | | Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | 788.5 | 634.2 | 354.7 | 311.7 | 2089.1 | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | 779.6 | 455.4 | 180.3 | 222.8 | 1638.1 | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | 673.7 | 472.9 | 211.6 | 194.1 | 1552.3 | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | 690 | 485 | 220 | 205 | 1600 | | | | | | | | | | | | | |
| 2012 | | | | | | | | | | | | | | | | 705 | 495 | 235 | 215 | 1650 | | | | | | | | | | | | | |
| EARNINGS PER SHARE ^{AB} | | | | | | | | | | | | | | | | Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | 1.12 | .66 | d.10 | d.18 | 1.49 | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | 1.10 | .73 | d.10 | d.06 | 1.67 | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | 1.14 | .65 | d.13 | d.13 | 1.55 | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | 1.15 | .66 | d.09 | d.12 | 1.60 | | | | | | | | | | | | | |
| 2012 | | | | | | | | | | | | | | | | 1.17 | .69 | d.06 | d.10 | 1.70 | | | | | | | | | | | | | |
| QUARTERLY DIVIDENDS PAID ^C | | | | | | | | | | | | | | | | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year | | | | | | | | | | | | | |
| 2007 | | | | | | | | | | | | | | | | .24 | .25 | .25 | .25 | .99 | | | | | | | | | | | | | |
| 2008 | | | | | | | | | | | | | | | | .25 | .26 | .26 | .26 | 1.03 | | | | | | | | | | | | | |
| 2009 | | | | | | | | | | | | | | | | .26 | .27 | .27 | .27 | 1.07 | | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | | | | | .27 | .28 | .28 | .28 | 1.11 | | | | | | | | | | | | | |
| 2011 | | | | | | | | | | | | | | | | .28 | | | | | | | | | | | | | | | | | |

(A) Fiscal year ends October 31st.

(B) Diluted earnings. Excl. extraordinary item.

(C) Dividends historically paid mid-January.

(D) Includes deferred charges. In 2010: \$14.8 million, 21¢/share.

(E) In millions, adjusted for stock split.

(F) Div'd reinvest. plan available; 5% discount.

(G) Dividends historically paid mid-January.

(H) Dividends historically paid mid-January.

(I) Dividends historically paid mid-January.

(J) Dividends historically paid mid-January.

(K) Dividends historically paid mid-January.

(L) Dividends historically paid mid-January.

(M) Dividends historically paid mid-January.

May. Quarters may not add to total due to

change in shares outstanding.

(C) Dividends historically paid mid-January.

(D) Includes deferred charges. In 2010: \$14.8

million, 21¢/share.

(E) In millions, adjusted for stock split.

(F) Div'd reinvest. plan available; 5% discount.

(G) Dividends historically paid mid-January.

(H) Dividends historically paid mid-January.

(I) Dividends historically paid mid-January.

(J) Dividends historically paid mid-January.

(K) Dividends historically paid mid-January.

(L) Dividends historically paid mid-January.

Company's Financial Strength B++

Stock's Price Stability 100

Price Growth Persistence 60

Earnings Predictability 95

Company's Financial Strength B++

Stock's Price Stability 100

Price Growth Persistence 60

Earnings Predictability 95

9.3 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,821 employees. Off./dir. own about 1.5% of common stock, State Street; 6.4% (1/10 proxy). Chrmn., CEO, & Pres.: Thomas E. Skains, Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmonting.com.

Piedmont Natural Gas likely posted fiscal first-quarter (ended January 31st) earnings in line with last year's. (Note: The company was scheduled to release financial data shortly after this review went to press.) Customer additions in North Carolina, South Carolina, and Tennessee ought to have helped offset the effects of lower natural gas pricing, which impacted the top line all last year. Consequently, revenues should register an advance of about 2.5% for the January interim. And share net probably increased by a penny.

We have trimmed our top-line estimate for 2011. This is largely a reflection of the challenging economic conditions in the company's market area. Nonetheless, lower interest expenses due to debt refinancing, as well as the increased customer base should act favorably on margins causing the bottom line to register a low single-digit advance.

Large capital investments this year augur well for prospects. The company has plans for multiple gas-fired power generation sites in its pipeline to serve its customer base in North Carolina.

The overall financial position is in good shape. Cash declined about 25% over the course of last year, to roughly \$5.6 million. Meanwhile, the company's debt load also decreased 8.5%, to approximately \$670 million. Too, PNY has been taking advantage of the favorable interest-rate environment by refinancing some of its higher-yielding notes. This should help to improve the company's operating metrics. And, Piedmont used the proceeds from last year's Southstar divestiture to repurchase about a million shares of stock, providing a benefit to share net moving forward.

We have introduced our 2012 share-net estimate at \$1.70. Continued customer additions and somewhat better prospects for regional economic growth ought to contribute to the quickening pace of earnings advances next year.

Good-quality shares of Piedmont have appeal as an income vehicle. However, total return potential for the pull to 2014-2016 is below average. And the stock is still ranked to lag the broader-market averages in the coming year.

Bryan J. Fong

March 11, 2011

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| SOUTH JERSEY INDS. NYSE-SJI | | | | | | | | | | RECENT PRICE | 54.79 | P/E RATIO | 19.1 | (Trailing: 20.3 Median: 14.0) | RELATIVE P/E RATIO | 1.17 | DIV'D YLD | 2.7% | VALUE LINE | Target Price Range | | | |
|---|--|--|--|--|--|--|--|--|--|---|-------|-----------|------|-------------------------------|--------------------|------|-----------|------|------------|--------------------|------|------|------|
| | | | | | | | | | | High: 15.1 17.0 18.3 20.3 26.5 32.4 34.3 41.3 40.6 40.8 54.2 55.7 | | | | | | | | | | | 2014 | 2015 | 2016 |
| | | | | | | | | | | Low: 12.3 13.8 14.1 15.3 19.7 24.9 25.6 31.2 25.2 32.0 37.2 51.9 | | | | | | | | | | | | | |
| TIMELINESS 3 Lowered 10/15/10 | | | | | | | | | | | | | | | | | | | | | | | |
| SAFETY 2 Lowered 1/4/91 | | | | | | | | | | | | | | | | | | | | | | | |
| TECHNICAL 4 Lowered 2/25/11 | | | | | | | | | | | | | | | | | | | | | | | |
| BETA .65 (1.00 = Market) | | | | | | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | | | | |
| Price Gain Ann'l Total | | | | | | | | | | | | | | | | | | | | | | | |
| High 65 (20%) 7% | | | | | | | | | | | | | | | | | | | | | | | |
| Low 50 (-10%) 1% | | | | | | | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | | | | |
| to Buy A M J J A S O N D | | | | | | | | | | | | | | | | | | | | | | | |
| Options to Sell 0 | | | | | | | | | | | | | | | | | | | | | | | |

**VALUE
LINE**

| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 | 2047 | 2048 | 2049 | 2050 | 2051 | 2052 | 2053 | 2054 | 2055 | 2056 | 2057 | 2058 | 2059 | 2060 | 2061 | 2062 | 2063 | 2064 | 2065 | 2066 | 2067 | 2068 | 2069 | 2070 | 2071 | 2072 | 2073 | 2074 | 2075 | 2076 | 2077 | 2078 | 2079 | 2080 | 2081 | 2082 | 2083 | 2084 | 2085 | 2086 | 2087 | 2088 | 2089 | 2090 | 2091 | 2092 | 2093 | 2094 | 2095 | 2096 | 2097 | 2098 | 2099 | 2100 | 2101 | 2102 | 2103 | 2104 | 2105 | 2106 | 2107 | 2108 | 2109 | 2110 | 2111 | 2112 | 2113 | 2114 | 2115 | 2116 | 2117 | 2118 | 2119 | 2120 | 2121 | 2122 | 2123 | 2124 | 2125 | 2126 | 2127 | 2128 | 2129 | 2130 | 2131 | 2132 | 2133 | 2134 | 2135 | 2136 | 2137 | 2138 | 2139 | 2140 | 2141 | 2142 | 2143 | 2144 | 2145 | 2146 | 2147 | 2148 | 2149 | 2150 | 2151 | 2152 | 2153 | 2154 | 2155 | 2156 | 2157 | 2158 | 2159 | 2160 | 2161 | 2162 | 2163 | 2164 | 2165 | 2166 | 2167 | 2168 | 2169 | 2170 | 2171 | 2172 | 2173 | 2174 | 2175 | 2176 | 2177 | 2178 | 2179 | 2180 | 2181 | 2182 | 2183 | 2184 | 2185 | 2186 | 2187 | 2188 | 2189 | 2190 | 2191 | 2192 | 2193 | 2194 | 2195 | 2196 | 2197 | 2198 | 2199 | 2200 | 2201 | 2202 | 2203 | 2204 | 2205 | 2206 | 2207 | 2208 | 2209 | 2210 | 2211 | 2212 | 2213 | 2214 | 2215 | 2216 | 2217 | 2218 | 2219 | 2220 | 2221 | 2222 | 2223 | 2224 | 2225 | 2226 | 2227 | 2228 | 2229 | 2230 | 2231 | 2232 | 2233 | 2234 | 2235 | 2236 | 2237 | 2238 | 2239 | 2240 | 2241 | 2242 | 2243 | 2244 | 2245 | 2246 | 2247 | 2248 | 2249 | 2250 | 2251 | 2252 | 2253 | 2254 | 2255 | 2256 | 2257 | 2258 | 2259 | 2260 | 2261 | 2262 | 2263 | 2264 | 2265 | 2266 | 2267 | 2268 | 2269 | 2270 | 2271 | 2272 | 2273 | 2274 | 2275 | 2276 | 2277 | 2278 | 2279 | 2280 | 2281 | 2282 | 2283 | 2284 | 2285 | 2286 | 2287 | 2288 | 2289 | 2290 | 2291 | 2292 | 2293 | 2294 | 2295 | 2296 | 2297 | 2298 | 2299 | 2300 | 2301 | 2302 | 2303 | 2304 | 2305 | 2306 | 2307 | 2308 | 2309 | 2310 | 2311 | 2312 | 2313 | 2314 | 2315 | 2316 | 2317 | 2318 | 2319 | 2320 | 2321 | 2322 | 2323 | 2324 | 2325 | 2326 | 2327 | 2328 | 2329 | 2330 | 2331 | 2332 | 2333 | 2334 | 2335 | 2336 | 2337 | 2338 | 2339 | 2340 | 2341 | 2342 | 2343 | 2344 | 2345 | 2346 | 2347 | 2348 | 2349 | 2350 | 2351 | 2352 | 2353 | 2354 | 2355 | 2356 | 2357 | 2358 | 2359 | 2360 | 2361 | 2362 | 2363 | 2364 | 2365 | 2366 | 2367 | 2368 | 2369 | 2370 | 2371 | 2372 | 2373 | 2374 | 2375 | 2376 | 2377 | 2378 | 2379 | 2380 | 2381 | 2382 | 2383 | 2384 | 2385 | 2386 | 2387 | 2388 | 2389 | 2390 | 2391 | 2392 | 2393 | 2394 | 2395 | 2396 | 2397 | 2398 | 2399 | 2400 | 2401 | 2402 | 2403 | 2404 | 2405 | 2406 | 2407 | 2408 | 2409 | 2410 | 2411 | 2412 | 2413 | 2414 | 2415 | 2416 | 2417 | 2418 | 2419 | 2420 | 2421 | 2422 | 2423 | 2424 | 2425 | 2426 | 2427 | 2428 | 2429 | 2430 | 2431 | 2432 | 2433 | 2434 | 2435 | 2436 | 2437 | 2438 | 2439 | 2440 | 2441 | 2442 | 2443 | 2444 | 2445 | 2446 | 2447 | 2448 | 2449 | 2450 | 2451 | 2452 | 2453 | 2454 | 2455 | 2456 | 2457 | 2458 | 2459 | 2460 | 2461 | 2462 | 2463 | 2464 | 2465 | 2466</ |
|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|--------|
|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|--------|

| | THIS STOCK | VL. ARITH. INDEX |
|-------|------------|------------------|
| 1 yr. | 40.0 | 31.2 |
| 3 yr. | 68.1 | 45.8 |
| 5 yr. | 58.9 | 48.1 |

| | 3.4% | 4.1% | 4.7% | 5.3% | 5.7% | 6.2% | 6.5% | 6.7% | 6.9% | 7.0% | 7.1% | 7.2% | 7.3% | 7.4% | 7.5% | 7.6% | 7.7% | 7.8% | 7.9% | 8.0% | 8.1% | 8.2% | 8.3% | 8.4% | 8.5% | 8.6% | 8.7% | 8.8% | 8.9% | 9.0% | 9.1% | 9.2% | 9.3% | 9.4% | 9.5% | 9.6% | 9.7% | 9.8% | 9.9% | 10.0% |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|---------------------------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|
| CAPITAL STRUCTURE as of 12/31/10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Debt \$1199.8 mill. Due in 5 Yrs \$275.0 mill. | 37.2 | 38.6 | 38.5 | 58.9 | 48.1 | 80.5 | 83.2 | 61.0 | 87.5 | 104.0 | 110 | 120 | Revenues (\$mill) | 2700 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LT Debt \$1124.7 mill. LT Interest \$80.0 mill. | 34.5% | 32.8% | 30.5% | 34.8% | 29.7% | 37.3% | 36.5% | 40.1% | 34.0% | 34.7% | 35.0% | 35.0% | Income Tax Rate | 35.0% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (Total interest coverage: 3.0x) | 2.7% | 2.9% | 3.1% | 4.0% | 2.8% | 4.0% | 3.9% | 2.8% | 4.6% | 5.7% | 5.8% | 6.0% | Net Profit Margin | 5.4% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Leases, Uncapitalized Annual rentals \$5.0 mill. | 56.2% | 62.5% | 68.0% | 64.2% | 63.8% | 60.6% | 58.1% | 55.3% | 53.5% | 49.1% | 49.0% | 48.0% | Long-Term Debt Ratio | 46.5% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension Assets-12/10 \$505.6 mill. | 39.6% | 34.1% | 34.0% | 35.8% | 36.2% | 39.4% | 41.9% | 44.7% | 46.5% | 50.9% | 51.0% | 52.0% | Common Equity Ratio | 53.5% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Oblig. \$708.9 mill. | 1417.6 | 1748.3 | 1851.6 | 1968.6 | 2076.0 | 2287.8 | 2349.7 | 2323.3 | 2371.4 | 2292.0 | 2350 | 2500 | Total Capital (\$mill) | 3000 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pfd Stock None | 1825.6 | 1979.5 | 2175.7 | 2336.0 | 2489.1 | 2668.1 | 2845.3 | 2983.3 | 3034.5 | 3072.4 | 3150 | 3250 | Net Plant (\$mill) | 3600 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Common Stock 45,784,435 shs. as of 2/15/11 | 5.1% | 4.3% | 4.2% | 5.0% | 4.3% | 5.5% | 5.5% | 4.5% | 5.4% | 6.2% | 6.5% | 6.5% | Return on Total Cap'l | 6.5% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 6.0% | 5.9% | 6.1% | 8.3% | 6.4% | 8.9% | 8.5% | 5.9% | 7.9% | 8.9% | 9.0% | 9.0% | Return on Shr. Equity | 9.0% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 6.6% | 6.5% | 6.1% | 8.3% | 6.4% | 8.9% | 8.5% | 5.9% | 7.9% | 8.9% | 9.0% | 9.0% | Return on Com Equity | 9.0% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MARKET CAP: \$1.8 billion (Mid Cap) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CURRENT POSITION: 2008 2009 2010 12/31/10 | 1.9% | 1.9% | 1.7% | 4.3% | 2.2% | 5.2% | 4.8% | 2.1% | 4.1% | 5.0% | 5.0% | 5.0% | Return to Com Eq | 5.5% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 74% | 70% | 79% | 108% | 62% | 10% | 48% | 63% | 48% | 44% | 45% | 45% | All Dividends to Net Prof | 43% | | | | | | | | | | | | | | | | | | | | | | | | | | |

holders. Sold PriMer Bank, 7/96. Has 4,802 employees. Off. & Dir. own 2.0% of common stock; BlackRock Inc., 9.1%; GAMCO Investors, Inc, 6.8%; T. Rowe Price Associates, Inc., 6.0% (3/10 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702.875.7337. Internet: upmcs.com

structure and several programs promoting energy efficiency. The focus on higher rates and improved rate design in its service territories is important, as the company depends upon such approved revenue increases to help it cope with higher costs.

Southwest has increased the dividend by 6%. Starting with the May payout, the quarterly dividend is now \$0.265 per share. The company cited improved performance and a stronger capital structure as reasons for the hike. Moderate dividend growth should continue going forward.

The stock is not without risk. The company should incur greater operating expenses as it continues to expand in the coming years. Utility performance could be hurt by unfavorable temperature variations or insufficient rate relief.

We anticipate higher revenues and share earnings for the company in the

coming years. But total return potential is unimpressive from the present quotation. Moreover, Southwest's dividend yield is below average for its industry group. Thus, investors can probably find more attractive opportunities elsewhere.

| | |
|------------------------------|-----|
| Company's Financial Strength | B |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 65 |
| Earnings Predictability | 70 |

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| WGL HOLDINGS NYSE-WGL | | | | RECENT PRICE | 37.49 | P/E RATIO | 17.9 | (Trailing: 16.3 Median: 15.0) | RELATIVE P/E RATIO | 1.10 | DIV'D YLD | 4.0% | VALUE LINE | | | | | | | |
|---|-------------|-----------------|--|--------------|------------------|-----------|-------|-------------------------------|--------------------|-------|-----------|-------|------------|-------|-------|-------|--------------------|-------|-----------------------------------|-------|
| TIMELINESS | 3 | Raised 12/10/10 | High: 31.5 | 30.5 | 29.5 | 28.8 | 31.4 | 34.8 | 33.6 | 35.9 | 37.1 | 35.5 | 40.0 | 38.5 | | | Target Price Range | 2014 | 2015 | 2016 |
| SAFETY | 1 | Raised 4/2/93 | Low: 21.8 | 25.3 | 19.3 | 23.2 | 26.7 | 28.8 | 27.0 | 29.8 | 22.4 | 28.6 | 31.0 | 35.6 | | | | | | |
| TECHNICAL | 4 | Lowered 3/4/11 | LEGENDS 1.30 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded areas indicate recessions | | | | | | | | | | | | | | | | | |
| BETA | .65 | (1.00 = Market) | | | | | | | | | | | | | | | | | | |
| 2014-16 PROJECTIONS | | | | | | | | | | | | | | | | | | | | |
| Price | 45 | Gain (+20%) | Ann'l Total | | | | | | | | | | | | | | | | | |
| High | 45 | | 9% | | | | | | | | | | | | | | | | | |
| Low | 35 | | 3% | | | | | | | | | | | | | | | | | |
| Insider Decisions | | | | | | | | | | | | | | | | | | | | |
| A M J J A S O N D | | | | | | | | | | | | | | | | | | | | |
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | | | | | | | | | | | |
| Options | 2 | 3 | 0 | 3 | 2 | 1 | 1 | 1 | 0 | | | | | | | | | | | |
| to Sell | 2 | 6 | 0 | 4 | 4 | 1 | 1 | 2 | 0 | | | | | | | | | | | |
| Institutional Decisions | | | | | | | | | | | | | | | | | | | | |
| 1Q2010 | 76 | 70 | 76 | | | | | | | | | | | | | | | | | |
| to Buy | 83 | 83 | 76 | | | | | | | | | | | | | | | | | |
| Hld's(000) | 27544 | 31974 | 32221 | | | | | | | | | | | | | | | | | |
| Percent | 18 | 12 | 12 | | | | | | | | | | | | | | | | | |
| shares | 6 | 6 | 6 | | | | | | | | | | | | | | | | | |
| traded | 18 | 12 | 12 | | | | | | | | | | | | | | | | | |
| % TOT. RETURN 2/11 | | | | | | | | | | | | | | | | | | | | |
| THIS STOCK VL ARITH INDEX | | | | | | | | | | | | | | | | | | | | |
| 1 yr. 20.6 31.2 | | | | | | | | | | | | | | | | | | | | |
| 3 yr. 39.1 45.8 | | | | | | | | | | | | | | | | | | | | |
| 5 yr. 53.5 48.1 | | | | | | | | | | | | | | | | | | | | |
| © VALUE LINE PUB. LLC 14-16 | | | | | | | | | | | | | | | | | | | | |
| 1995 | 19.30 | 22.19 | 24.16 | 23.74 | 20.92 | 22.19 | 29.80 | 32.63 | 42.45 | 42.93 | 44.94 | 53.96 | 53.51 | 52.65 | 53.98 | 53.60 | 55.90 | 57.35 | Revenues per sh ^A | 59.70 |
| 2000 | 2.51 | 2.93 | 3.02 | 2.79 | 2.74 | 3.20 | 3.24 | 2.63 | 4.00 | 3.87 | 3.97 | 3.84 | 3.89 | 4.34 | 4.44 | 4.11 | 3.95 | 4.30 | "Cash Flow" per sh | 4.60 |
| 2005 | 1.45 | 1.85 | 1.85 | 1.54 | 1.47 | 1.79 | 1.88 | 1.14 | 2.30 | 1.98 | 2.13 | 1.94 | 2.09 | 2.44 | 2.53 | 2.27 | 2.10 | 2.35 | Earnings per sh ^B | 2.70 |
| 2010 | 1.12 | 1.14 | 1.17 | 1.20 | 1.22 | 1.24 | 1.26 | 1.27 | 1.28 | 1.30 | 1.32 | 1.35 | 1.37 | 1.41 | 1.47 | 1.50 | 1.53 | 1.57 | Div'ds Decl'd per sh ^C | 1.68 |
| 2015 | 2.63 | 2.85 | 3.20 | 3.62 | 3.42 | 2.67 | 2.68 | 3.34 | 2.85 | 2.33 | 2.32 | 3.27 | 3.33 | 2.70 | 2.77 | 2.57 | 2.45 | 2.45 | Cap'l Spending per sh | 2.40 |
| 2020 | 11.95 | 12.79 | 13.48 | 13.86 | 14.72 | 15.31 | 16.24 | 15.78 | 16.25 | 16.95 | 17.80 | 18.86 | 19.83 | 20.99 | 21.89 | 22.82 | 23.55 | 24.20 | Book Value per sh ^D | 27.30 |
| 2025 | 42.93 | 43.70 | 43.70 | 43.84 | 46.47 | 46.47 | 48.54 | 48.56 | 48.63 | 48.67 | 48.65 | 48.89 | 49.45 | 49.92 | 50.14 | 50.54 | 51.00 | 51.00 | Common Shs Outst'g ^E | 52.00 |
| 2030 | 12.7 | 11.5 | 12.7 | 17.2 | 17.3 | 14.6 | 14.7 | 23.1 | 11.1 | 14.2 | 14.7 | 15.5 | 15.6 | 13.7 | 12.6 | 15.1 | 15.1 | 15.1 | Avg Ann'l P/E Ratio | 15.0 |
| 2035 | .85 | .72 | .73 | .89 | .99 | .95 | .75 | 1.26 | .63 | .75 | .78 | .84 | .83 | .82 | .84 | .95 | .95 | .95 | Relative P/E Ratio | 1.00 |
| 2040 | 6.1% | 5.4% | 5.0% | 4.5% | 4.8% | 4.8% | 4.6% | 4.8% | 5.0% | 4.6% | 4.2% | 4.5% | 4.2% | 4.2% | 4.6% | 4.4% | 4.4% | 4.4% | Avg Ann'l Div'd Yield | 4.2% |
| CAPITAL STRUCTURE as of 12/31/10 | | | | | | | | | | | | | | | | | | | | |
| Total Debt \$788.2 mill. Due in 5 Yrs \$194.2 mill. | | | | | | | | | | | | | | | | | | | | |
| LT Debt \$637.9 mill. LT Interest \$39.4 mill. | | | | | | | | | | | | | | | | | | | | |
| (LT interest earned: 6.2x; total interest coverage: 5.7x) | | | | | | | | | | | | | | | | | | | | |
| Pension Assets-9/10 \$1,215.8 mill. | | | | | | | | | | | | | | | | | | | | |
| Oblig. \$678.1 mill. | | | | | | | | | | | | | | | | | | | | |
| Preferred Stock \$28.2 mill. Pfd. Div'd \$1.3 mill. | | | | | | | | | | | | | | | | | | | | |
| Common Stock 51,127,081 shs. as of 1/31/11 | | | | | | | | | | | | | | | | | | | | |
| MARKET CAP: \$1.9 billion (Mid Cap) | | | | | | | | | | | | | | | | | | | | |
| CURRENT POSITION | | | | | | | | | | | | | | | | | | | | |
| 2009 | 2010 | 12/31/10 | | | | | | | | | | | | | | | | | | |
| Cash Assets | 7.9 | 8.9 | 16.6 | | | | | | | | | | | | | | | | | |
| Other | 675.6 | 708.4 | 1008.4 | | | | | | | | | | | | | | | | | |
| Current Assets | 683.5 | 717.3 | 1025.0 | | | | | | | | | | | | | | | | | |
| Accts Payable | 213.5 | 225.4 | 356.0 | | | | | | | | | | | | | | | | | |
| Debt Due | 266.5 | 130.5 | 150.3 | | | | | | | | | | | | | | | | | |
| Other | 154.6 | 188.2 | 281.0 | | | | | | | | | | | | | | | | | |
| Current Liab. | 634.6 | 544.1 | 787.3 | | | | | | | | | | | | | | | | | |
| Fix. Chg. Cov. | 533% | 535% | 535% | | | | | | | | | | | | | | | | | |
| ANNUAL RATES | | | | | | | | | | | | | | | | | | | | |
| Past 10 Yrs. | Past 5 Yrs. | Est'd '08-'10 | | | | | | | | | | | | | | | | | | |
| Revenues (per sh) | 9.0% | 4.0% | 2.0% | | | | | | | | | | | | | | | | | |
| "Cash Flow" | 4.0% | 1.5% | 1.0% | | | | | | | | | | | | | | | | | |
| Earnings | 4.0% | 2.5% | 1.5% | | | | | | | | | | | | | | | | | |
| Dividends | 2.0% | 2.5% | 2.5% | | | | | | | | | | | | | | | | | |
| Book Value | 4.0% | 5.0% | 4.0% | | | | | | | | | | | | | | | | | |
| QUARTERLY REVENUES (\$ mill.) ^A | | | | | | | | | | | | | | | | | | | | |
| Fiscal Year Ends | Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year | | | | | | | | | | | | | | | |
| 2008 | 751.6 | 1020.0 | 464.7 | 391.9 | 2628.2 | | | | | | | | | | | | | | | |
| 2009 | 826.2 | 1040.9 | 427.0 | 412.8 | 2706.9 | | | | | | | | | | | | | | | |
| 2010 | 727.4 | 1056.6 | 459.7 | 465.2 | 2708.9 | | | | | | | | | | | | | | | |
| 2011 | 795.9 | 1079.1 | 485 | 490 | 2850 | | | | | | | | | | | | | | | |
| 2012 | 815 | 1100 | 500 | 510 | 2925 | | | | | | | | | | | | | | | |
| EARNINGS PER SHARE ^{A B} | | | | | | | | | | | | | | | | | | | | |
| Fiscal Year Ends | Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year | | | | | | | | | | | | | | | |
| 2008 | .96 | 1.66 | .06 | d.24 | 2.44 | | | | | | | | | | | | | | | |
| 2009 | 1.03 | 1.65 | .11 | d.25 | 2.53 | | | | | | | | | | | | | | | |
| 2010 | 1.01 | 1.64 | d.07 | d.29 | 2.27 | | | | | | | | | | | | | | | |
| 2011 | 1.02 | 1.55 | d.10 | d.37 | 2.10 | | | | | | | | | | | | | | | |
| 2012 | 1.08 | 1.61 | d.04 | d.30 | 2.35 | | | | | | | | | | | | | | | |
| QUARTERLY DIVIDENDS PAID ^C | | | | | | | | | | | | | | | | | | | | |
| Cal-endar | Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year | | | | | | | | | | | | | | | |
| 2007 | .34 | .34 | .34 | .34 | 1.36 | | | | | | | | | | | | | | | |
| 2008 | .34 | .36 | .36 | .36 | 1.42 | | | | | | | | | | | | | | | |
| 2009 | .36 | .37 | .37 | .37 | 1.47 | | | | | | | | | | | | | | | |
| 2010 | .37 | .378 | .378 | .378 | 1.50 | | | | | | | | | | | | | | | |
| 2011 | .378 | | | | | | | | | | | | | | | | | | | |
| BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,073,722 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and prod- | | | | | | | | | | | | | | | | | | | | |
| vices energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. Black Rock Inc. owns 9.2% of common stock; Off./dir. less than 1% (1/11 proxy). Chrmn. & CEO: Terry D. McCallister, Inc.: D.C. and VA. Addr.: 101 Const. Ave., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com. | | | | | | | | | | | | | | | | | | | | |
| WGL Holdings is off to a decent start this year. Its top line benefited from higher volumes at the Utility and Non-Utility operating segments, reflecting growth in active customer accounts. Indeed, revenues advanced about 9.5% over this time frame. Meanwhile, after excluding mark-to-market gains on energy-related derivatives, it is apparent that margins were squeezed a bit during the December interim. This margin compression offset top-line gains and equated to only a 1% hike in the bottom line, to \$1.02 a share. We look for a 7.5% earnings decline this year. The downturn will likely stem from lower realized margins on gas sales. Meanwhile, costs have been creeping higher and impacting profits in Virginia. The company does have a proposed rate case in the works for that region. But even if this goes through as planned, the higher rates will not kick in until October of this year. The benefits of this rate case will no doubt be a nice contributor to next year's bottom line. And when this is combined with prospective gains in natural gas demand, and an overall firming up in the economy, we have introduced our 2012 earnings es- | | | | | | | | | | | | | | | | | | | | |
| timate at \$2.35 a share. Some alternative energy investments should contribute nicely down the road. WGL has two solar projects planned for this year. The first is located at the University of Maryland and will produce 792 megawatt hours of electricity annually. It should be operational during the March period. The second and larger site will be located at two Perdue facilities, generating about 3,700 megawatt hours of electricity each year. This project is slated for completion in September. These ventures will be owned and operated by Washington Gas Energy Services, and the energy produced will be sold to the on-site customers under long-term contracts. These neutrally ranked shares have appeal as an income vehicle. And, with the recent market appearing to be a bit overbought, these high-quality shares provide a safe haven in the event of a correction. This is evident in the stock's high Safety rank (1), top mark for Price Stability (100), and conservative Beta (.65). However, capital appreciation potential for the pull to 2014-2016 is subpar. Bryan J. Fong March 11, 2011 | | | | | | | | | | | | | | | | | | | | |

ATTACHMENT C

**AMERICAN STS WTR CO (NYSE)****Scottrade****AWR** 33.69 \pm 0.04

(0.12%)

Vol. 25,229

13:16 ET

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

AMER STATES WTR

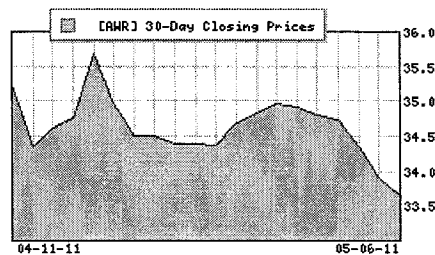
Phone: -
Fax: -
Web: -
Email: None

Industry UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End December
Last Reported Quarter 03/31/11
Next EPS Date 08/04/2011

Price and Volume Information

Zacks Rank **1.2**
Yesterday's Close 33.65
52 Week High 39.44
52 Week Low 31.24
Beta 0.38
20 Day Moving Average 73,821.45
Target Price Consensus 42.5

**% Price Change**

4 Week -4.70
12 Week 1.29
YTD -2.38

% Price Change Relative to S&P 500

4 Week -5.56
12 Week 0.46
YTD -8.39

Share Information

Shares Outstanding 18.65 (millions)
Market Capitalization 627.71 (millions)
Short Ratio 5.73
Last Split Date 06/10/2002

Dividend Information

Dividend Yield 3.09%
Annual Dividend \$1.04
Payout Ratio 0.57
Change in Payout Ratio -0.05
Last Dividend Payout / Amount 02/10/2011 / \$0.26

EPS Information

Current Quarter EPS Consensus Estimate 0.59
Current Year EPS Consensus Estimate 2.12
Estimated Long-Term EPS Growth Rate 11.00
Next EPS Report Date 08/04/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.43
30 Days Ago 2.43
60 Days Ago 2.71
90 Days Ago 2.71

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|----------------------------|------------------------------|
| Current FY Estimate: 15.87 | vs. Previous Year -17.78% | vs. Previous Year 4.46% |
| Trailing 12 Months: 18.29 | vs. Previous Quarter 0.00% | vs. Previous Quarter: -9.06% |
| PEG Ratio 1.44 | | |

Price Ratios

Price/Book 1.66 03/31/11

ROA

9.27 03/31/11 2.93

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Cash Flow | 8.25 | 12/31/10 | 9.74 | 12/31/10 | 3.09 |
| Price / Sales | 1.55 | 09/30/10 | 8.89 | 09/30/10 | 2.83 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | 8.55 |
| 12/31/10 | 1.15 | 12/31/10 | 1.13 | 12/31/10 | 9.01 |
| 09/30/10 | 1.04 | 09/30/10 | 1.03 | 09/30/10 | 8.49 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 13.57 | 12/31/10 | 13.57 | 12/31/10 | 20.28 |
| 09/30/10 | 12.27 | 09/30/10 | 12.27 | 09/30/10 | 20.01 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 45.95 | 12/31/10 | 0.79 | 12/31/10 | 44.26 |
| 09/30/10 | 48.52 | 09/30/10 | 0.81 | 09/30/10 | 44.63 |

**CALIFORNIA WTR SVC GROUP (NYSE)****Scottrade**

CWT 36.63 ▲0.14 (0.38%) Vol. 47,605

13:24 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

General Information

CALIF WATER SVC

-

-, -

Phone: -

Fax: -

Web: -

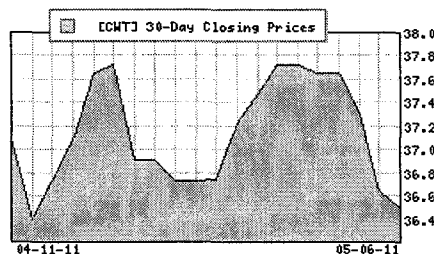
Email: None

Industry UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End December
Last Reported Quarter 03/31/11
Next EPS Date 07/27/2011

Price and Volume Information

Zacks Rank 
Yesterday's Close 36.49
52 Week High 39.53
52 Week Low 33.81
Beta 0.30
20 Day Moving Average 89,605.90
Target Price Consensus 41

**% Price Change**

4 Week -2.17
12 Week 1.25
YTD -2.09

% Price Change Relative to S&P 500

4 Week -3.05
12 Week 0.41
YTD -8.12

Share Information

Shares Outstanding 20.83
(millions)
Market Capitalization 760.20
(millions)
Short Ratio 7.64
Last Split Date 01/26/1998

Dividend Information

Dividend Yield 3.37%
Annual Dividend \$1.23
Payout Ratio 0.70
Change in Payout Ratio -0.02
Last Dividend Payout / Amount 05/05/2011 / \$0.31

EPS Information

Current Quarter EPS Consensus Estimate 0.48
Current Year EPS Consensus Estimate 2.13
Estimated Long-Term EPS Growth Rate -
Next EPS Report Date 07/27/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.25
30 Days Ago 2.25
60 Days Ago 2.25
90 Days Ago 2.25

Fundamental Ratios**P/E**

Current FY Estimate: 17.14
Trailing 12 Months: 20.73
PEG Ratio -

EPS Growth

vs. Previous Year -50.00%
vs. Previous Quarter -78.26%

Sales Growth

vs. Previous Year 8.73%
vs. Previous Quarter: -6.93%

| Price Ratios | | ROE | | ROA | | |
|--------------------|-------|----------------|--|------------------|----------|-------|
| Price/Book | 1.75 | 03/31/11 | | 8.53 | 03/31/11 | 2.24 |
| Price/Cash Flow | 9.06 | 12/31/10 | | 8.81 | 12/31/10 | 2.32 |
| Price / Sales | 1.62 | 09/30/10 | | 9.26 | 09/30/10 | 2.48 |
| Current Ratio | | Quick Ratio | | Operating Margin | | |
| 03/31/11 | - | 03/31/11 | | - | 03/31/11 | 7.85 |
| 12/31/10 | 1.18 | 12/31/10 | | 1.12 | 12/31/10 | 8.18 |
| 09/30/10 | 0.59 | 09/30/10 | | 0.55 | 09/30/10 | 8.50 |
| Net Margin | | Pre-Tax Margin | | Book Value | | |
| 03/31/11 | - | 03/31/11 | | - | 03/31/11 | - |
| 12/31/10 | 13.51 | 12/31/10 | | 13.51 | 12/31/10 | 20.91 |
| 09/30/10 | 13.36 | 09/30/10 | | 13.36 | 09/30/10 | 20.98 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | | |
| 03/31/11 | - | 03/31/11 | | - | 03/31/11 | - |
| 12/31/10 | 31.32 | 12/31/10 | | 1.10 | 12/31/10 | 52.39 |
| 09/30/10 | 32.92 | 09/30/10 | | 0.87 | 09/30/10 | 46.56 |

**SJW CORP (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|--------------|----------------|--------------------|-----------------|
| SJW | 23.10 | ▲0.01 | (0.04%) | Vol. 33,698 | 15:02 ET |
|------------|--------------|--------------|----------------|--------------------|-----------------|

SJW CORP. is a holding company which operates through its wholly-owned subsidiaries, San Jose Water Co., SJW Land Co., and Western Precision, Inc. San Jose Water Co., is a public utility in the business of providing waterservice to a population of approximately 928,000 people. Their servicearea encompasses about 134 sq. miles in the metropolitan San Juan area. SJW Land Co. operates parking facilities located adjacent to the theirheadquarters and the San Jose area.

General Information

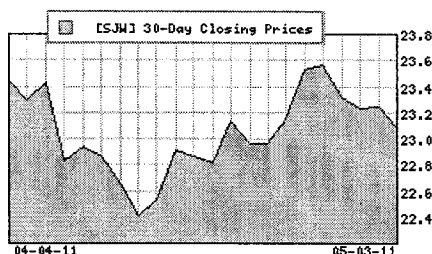
SJW CORP
110 W. TAYLOR STREET
SAN JOSE, CA 95110
 Phone: -
 Fax: -
 Web: <http://www.sjwater.com>
 Email: None

Industry: **UTIL-WATER**
 SPLY
 Sector: **Utilities**

Fiscal Year End: **December**
 Last Reported Quarter: **03/31/11**
 Next EPS Date: **07/27/2011**

Price and Volume Information

Zacks Rank **1B**
 Yesterday's Close **23.09**
 52 Week High **28.19**
 52 Week Low **22.25**
 Beta **0.67**
 20 Day Moving Average **34,745.15**
 Target Price Consensus **27**

**% Price Change**

4 Week **-0.90**
 12 Week **-4.55**
 YTD **-12.77**

% Price Change Relative to S&P 500

4 Week **-2.65**
 12 Week **-6.80**
 YTD **-19.02**

Share Information

Shares Outstanding **18.58**
 (millions)
 Market Capitalization **428.94**
 (millions)
 Short Ratio **11.19**
 Last Split Date **03/17/2006**

Dividend Information

Dividend Yield **2.99%**
 Annual Dividend **\$0.69**
 Payout Ratio **0.85**
 Change in Payout Ratio **0.19**
 Last Dividend Payout / Amount **02/03/2011 / \$0.17**

EPS Information

Current Quarter EPS Consensus Estimate **0.25**
 Current Year EPS Consensus Estimate **0.99**
 Estimated Long-Term EPS Growth Rate **-**
 Next EPS Report Date **07/27/2011**

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) **2.33**
 30 Days Ago **2.33**
 60 Days Ago **2.33**
 90 Days Ago **3.00**

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|-----------------------------------|-------------------------------------|--------------------------------------|
| Current FY Estimate: 23.32 | vs. Previous Year -40.00% | vs. Previous Year 8.13% |
| Trailing 12 Months: 28.51 | vs. Previous Quarter -70.00% | vs. Previous Quarter: -13.90% |
| PEG Ratio - | | |

| Price Ratios | | ROE | | ROA | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Book | 1.68 | 03/31/11 | 5.97 | 03/31/11 | 1.61 |
| Price/Cash Flow | 9.75 | 12/31/10 | 6.14 | 12/31/10 | 1.67 |
| Price / Sales | 1.96 | 09/30/10 | 6.42 | 09/30/10 | 1.77 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | 6.95 |
| 12/31/10 | 1.30 | 12/31/10 | 1.27 | 12/31/10 | 7.23 |
| 09/30/10 | 0.80 | 09/30/10 | 0.78 | 09/30/10 | 7.62 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 15.48 | 12/31/10 | 15.48 | 12/31/10 | 13.76 |
| 09/30/10 | 13.89 | 09/30/10 | 13.89 | 09/30/10 | 13.92 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 90.65 | 12/31/10 | 1.16 | 12/31/10 | 53.69 |
| 09/30/10 | 90.01 | 09/30/10 | 1.15 | 09/30/10 | 53.43 |

**AQUA AMERICA INC (NYSE)****Scottrade**

WTR 22.83 ▲ 0.27 (1.20%) Vol. 200,155

13:25 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

General Information

AQUA AMER INC

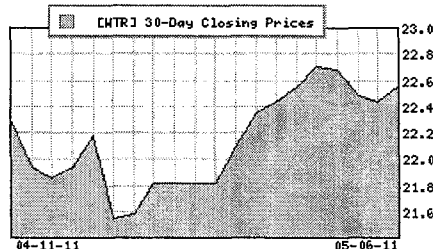
Phone: -
Fax: -
Web: -
Email: None

Industry UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End December
Last Reported Quarter 03/31/11
Next EPS Date 08/09/2011

Price and Volume Information

Zacks Rank
Yesterday's Close 22.56
52 Week High 23.79
52 Week Low 16.52
Beta 0.22
20 Day Moving Average 543,550.38
Target Price Consensus 23.8

**% Price Change**

4 Week 0.36
12 Week -3.71
YTD 0.36

% Price Change Relative to S&P 500

4 Week -0.54
12 Week -4.51
YTD -5.83

Share Information

Shares Outstanding (millions) 137.97
Market Capitalization (millions) 3,112.56
Short Ratio 10.56
Last Split Date 12/02/2005

Dividend Information

Dividend Yield 2.75%
Annual Dividend \$0.62
Payout Ratio 0.66
Change in Payout Ratio -0.03
Last Dividend Payout / Amount 02/15/2011 / \$0.16

EPS Information

Current Quarter EPS Consensus Estimate 0.24
Current Year EPS Consensus Estimate 0.97
Estimated Long-Term EPS Growth Rate 6.50
Next EPS Report Date 08/09/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.27
30 Days Ago 2.27
60 Days Ago 2.27
90 Days Ago 2.27

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-----------------------------|------------------------------|
| Current FY Estimate: 23.19 | vs. Previous Year 18.75% | vs. Previous Year 6.73% |
| Trailing 12 Months: 24.00 | vs. Previous Quarter -9.52% | vs. Previous Quarter: -4.46% |
| PEG Ratio 3.57 | | |

Price Ratios**ROE****ROA**

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Book | 2.64 | 03/31/11 | 11.19 | 03/31/11 | 3.25 |
| Price/Cash Flow | 12.66 | 12/31/10 | 10.88 | 12/31/10 | 3.17 |
| Price / Sales | 4.22 | 09/30/10 | 10.84 | 09/30/10 | 3.18 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | 17.44 |
| 12/31/10 | 0.65 | 12/31/10 | 0.61 | 12/31/10 | 17.08 |
| 09/30/10 | 0.72 | 09/30/10 | 0.67 | 09/30/10 | 17.04 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 28.10 | 12/31/10 | 28.10 | 12/31/10 | 8.54 |
| 09/30/10 | 28.01 | 09/30/10 | 28.01 | 09/30/10 | 8.30 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 28.68 | 12/31/10 | 1.30 | 12/31/10 | 56.60 |
| 09/30/10 | 28.01 | 09/30/10 | 1.27 | 09/30/10 | 56.00 |

**AGL RESOURCES INC (NYSE)****Scottrade**
AGL **41.20** **▲ 0.01** **(0.02%)** **Vol. 220,610**

15:08 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.


General Information

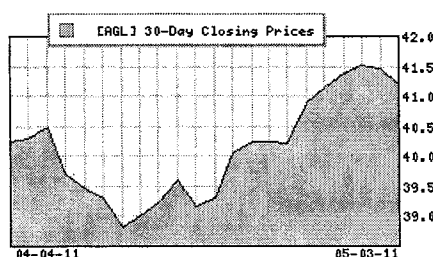
AGL RESOURCES
TEN PEACHTREE PLACE
ATLANTA, GA 30309
Phone: -
Fax: 404-584-3945
Web: <http://www.aglresources.com>
Email: scave@aglresources.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 03/31/11
Next EPS Date: 07/28/2011

Price and Volume Information

Zacks Rank 
Yesterday's Close: 41.19
52 Week High: 41.96
52 Week Low: 34.21
Beta: 0.45
20 Day Moving Average: 338,833.19
Target Price Consensus: 42

**% Price Change**

4 Week: 2.18
12 Week: 9.29
YTD: 14.90

% Price Change Relative to S&P 500

4 Week: 0.38
12 Week: 6.70
YTD: 6.79

Share Information

Shares Outstanding (millions): 77.98
Market Capitalization (millions): 3,212.08
Short Ratio: 11.38
Last Split Date: 12/04/1995

Dividend Information

Dividend Yield: 4.37%
Annual Dividend: \$1.80
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 02/16/2011 / \$0.45

EPS Information

Current Quarter EPS Consensus Estimate: 0.27
Current Year EPS Consensus Estimate: 3.15
Estimated Long-Term EPS Growth Rate: 4.00
Next EPS Report Date: 07/28/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.13
30 Days Ago: 2.13
60 Days Ago: 2.13
90 Days Ago: 2.13

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|------------------------------|------------------------------|
| Current FY Estimate: 13.10 | vs. Previous Year: -5.78% | vs. Previous Year: -12.46% |
| Trailing 12 Months: 13.96 | vs. Previous Quarter: 89.53% | vs. Previous Quarter: 32.03% |
| PEG Ratio: 3.27 | | |

Price Ratios

Price/Book: 1.75
Price/Cash Flow: 12/31/10

ROE

03/31/11
12/31/10

ROA

03/31/11
12/31/10

| | | | | | |
|---------------------------|----------------|-----------------------|----------------|-------------------------|-------|
| | 8.08 | | 12.98 | | 3.40 |
| Price / Sales | 1.43 09/30/10 | | 13.19 09/30/10 | | 3.50 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 03/31/11 | - 03/31/11 | | - 03/31/11 | | - |
| 12/31/10 | 0.89 12/31/10 | | 0.63 12/31/10 | | 10.02 |
| 09/30/10 | 0.79 09/30/10 | | 0.47 09/30/10 | | 10.27 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 03/31/11 | - 03/31/11 | | - 03/31/11 | | - |
| 12/31/10 | 16.43 12/31/10 | | 16.43 12/31/10 | | 23.52 |
| 09/30/10 | 17.35 09/30/10 | | 17.35 09/30/10 | | 23.28 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 03/31/11 | - 03/31/11 | | - 03/31/11 | | - |
| 12/31/10 | 2.98 12/31/10 | | 0.91 12/31/10 | | 47.68 |
| 09/30/10 | 2.87 09/30/10 | | 0.83 09/30/10 | | 45.49 |

**ATMOS ENERGY CORP (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|---------------|----------------|---------------------|-----------------|
| ATO | 34.61 | ± 0.41 | (1.20%) | Vol. 120,903 | 14:02 ET |
|------------|--------------|---------------|----------------|---------------------|-----------------|

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

General Information

ATMOS ENERGY CP

-

Phone: -

Fax: -

Web: -

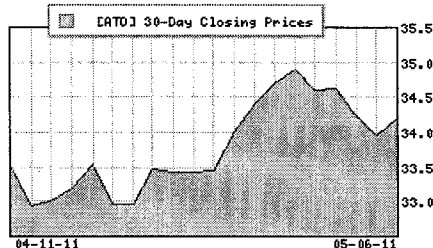
Email: None

| | |
|----------|----------------|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|-----------------------|------------|
| Fiscal Year End | September |
| Last Reported Quarter | 03/31/11 |
| Next EPS Date | 08/10/2011 |

Price and Volume Information

| | |
|------------------------|------------|
| Zacks Rank | |
| Yesterday's Close | 34.20 |
| 52 Week High | 35.25 |
| 52 Week Low | 25.86 |
| Beta | 0.52 |
| 20 Day Moving Average | 224,307.25 |
| Target Price Consensus | 33.7 |

**% Price Change**

| | |
|---------|------|
| 4 Week | 1.18 |
| 12 Week | 2.09 |
| YTD | 9.62 |

% Price Change Relative to S&P 500

| | |
|---------|------|
| 4 Week | 0.28 |
| 12 Week | 1.25 |
| YTD | 2.86 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 90.65 |
| Market Capitalization (millions) | 3,100.20 |
| Short Ratio | 9.60 |
| Last Split Date | 05/17/1994 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 3.98% |
| Annual Dividend | \$1.36 |
| Payout Ratio | 0.61 |
| Change in Payout Ratio | -0.02 |
| Last Dividend Payout / Amount | 02/23/2011 / \$0.34 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.09 |
| Current Year EPS Consensus Estimate | 2.30 |
| Estimated Long-Term EPS Growth Rate | 4.50 |
| Next EPS Report Date | 08/10/2011 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.89 |
| 30 Days Ago | 2.89 |
| 60 Days Ago | 2.89 |
| 90 Days Ago | 2.89 |

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------|----------------------------|------------------------------|
| Current FY Estimate: | 14.85 vs. Previous Year | -8.28% vs. Previous Year |
| Trailing 12 Months: | 15.34 vs. Previous Quarter | 64.20% vs. Previous Quarter: |
| PEG Ratio | 3.30 | 39.78% |

Price Ratios**ROE****ROA**

| | | | | | |
|---------------------------|-------|-----------------------|------|-------------------------|-------|
| Price/Book | 1.31 | 03/31/11 | 8.87 | 03/31/11 | 2.94 |
| Price/Cash Flow | 7.25 | 12/31/10 | 9.52 | 12/31/10 | 3.17 |
| Price / Sales | 0.72 | 09/30/10 | 9.23 | 09/30/10 | 3.11 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 03/31/11 | 0.91 | 03/31/11 | 0.70 | 03/31/11 | 4.68 |
| 12/31/10 | 0.86 | 12/31/10 | 0.63 | 12/31/10 | 4.66 |
| 09/30/10 | 0.75 | 09/30/10 | 0.48 | 09/30/10 | 4.38 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 03/31/11 | 7.50 | 03/31/11 | 7.50 | 03/31/11 | 26.19 |
| 12/31/10 | 6.52 | 12/31/10 | 6.52 | 12/31/10 | 25.16 |
| 09/30/10 | 6.99 | 09/30/10 | 6.99 | 09/30/10 | 24.16 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 03/31/11 | 12.01 | 03/31/11 | 0.76 | 03/31/11 | 43.22 |
| 12/31/10 | 13.40 | 12/31/10 | 0.79 | 12/31/10 | 44.27 |
| 09/30/10 | 13.07 | 09/30/10 | 0.83 | 09/30/10 | 45.38 |



| LACLEDE GROUP INC (NYSE) | | | | | Scottrade |
|--------------------------|-------|---------|----------|-------------|-----------|
| LG | 38.42 | ▼ -0.23 | (-0.60%) | Vol. 71,445 | 15:06 ET |

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

General Information

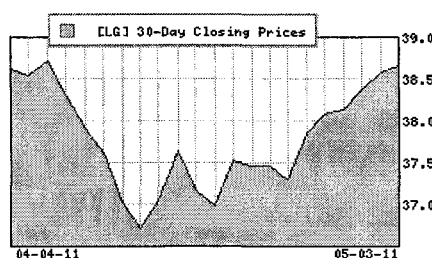
LACLEDE GRP INC
720 OLIVE ST
ST LOUIS, MO 63101
Phone: -
Fax: 314-421-1979
Web: <http://www.thelacledgroup.com>
Email: investorservices@lacledegas.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Reported Quarter: 03/31/11
Next EPS Date: 07/22/2011

Price and Volume Information

Zacks Rank: 
Yesterday's Close: 38.65
52 Week High: 39.99
52 Week Low: 31.65
Beta: 0.08
20 Day Moving Average: 65,142.10
Target Price Consensus: N/A



% Price Change

4 Week: 0.29
12 Week: -0.82
YTD: 5.77

% Price Change Relative to S&P 500

4 Week: -1.49
12 Week: -3.16
YTD: -3.15

Share Information

Shares Outstanding (millions): 22.39
Market Capitalization (millions): 865.18
Short Ratio: 10.21
Last Split Date: 03/08/1994

Dividend Information

Dividend Yield: 4.19%
Annual Dividend: \$1.62
Payout Ratio: 0.67
Change in Payout Ratio: 0.05
Last Dividend Payout / Amount: 03/09/2011 / \$0.41

EPS Information

Current Quarter EPS Consensus Estimate: 0.22
Current Year EPS Consensus Estimate: 2.45
Estimated Long-Term EPS Growth Rate: 3.00
Next EPS Report Date: 07/22/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.00
30 Days Ago: 3.00
60 Days Ago: 3.00
90 Days Ago: 3.00

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|------------------------------|------------------------------|
| Current FY Estimate: 15.80 | vs. Previous Year: 0.00% | vs. Previous Year: -14.41% |
| Trailing 12 Months: 15.97 | vs. Previous Quarter: 17.14% | vs. Previous Quarter: 22.42% |
| PEG Ratio: 5.27 | | |

| Price Ratios | ROE | ROA |
|------------------|----------------|----------------|
| Price/Book: 1.52 | 03/31/11: 9.92 | 03/31/11: 2.96 |

| | | | | | |
|---------------------------|-------|----------|-------------------------|----------|-------|
| Price/Cash Flow | 9.17 | 12/31/10 | 9.84 | 12/31/10 | 2.95 |
| Price / Sales | 0.54 | 09/30/10 | 9.83 | 09/30/10 | 2.91 |
| Current Ratio | | | Quick Ratio | | |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | 3.38 |
| 12/31/10 | 1.39 | 12/31/10 | 0.97 | 12/31/10 | 3.18 |
| 09/30/10 | 1.24 | 09/30/10 | 0.84 | 09/30/10 | 3.07 |
| Net Margin | | | Operating Margin | | |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 4.83 | 12/31/10 | 4.83 | 12/31/10 | 24.51 |
| 09/30/10 | 4.68 | 09/30/10 | 4.68 | 09/30/10 | 24.02 |
| Pre-Tax Margin | | | Book Value | | |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 13.41 | 12/31/10 | 0.66 | 12/31/10 | 39.91 |
| 09/30/10 | 14.62 | 09/30/10 | 0.68 | 09/30/10 | 40.48 |
| Inventory Turnover | | | Debt-to-Equity | | |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 13.41 | 12/31/10 | 0.66 | 12/31/10 | 39.91 |
| 09/30/10 | 14.62 | 09/30/10 | 0.68 | 09/30/10 | 40.48 |
| | | | Debt to Capital | | |
| | | | - | 03/31/11 | - |
| | | | 0.66 | 12/31/10 | 39.91 |
| | | | 0.68 | 09/30/10 | 40.48 |

**NEW JERSEY RES (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|---------------|----------------|---------------------|-----------------|
| NJR | 44.50 | ▲ 0.66 | (1.51%) | Vol. 106,324 | 14:03 ET |
|------------|--------------|---------------|----------------|---------------------|-----------------|

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.


General Information
NJ RESOURCES

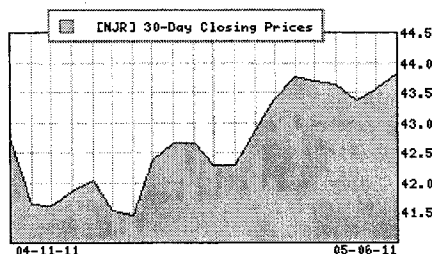
Phone: -
 Fax: -
 Web: -
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Reported Quarter: 03/31/11
 Next EPS Date: 08/10/2011

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 43.84
 52 Week High: 45.59
 52 Week Low: 34.07
 Beta: 0.20
 20 Day Moving Average: 151,621.20
 Target Price Consensus: 46

**% Price Change**

4 Week: 2.45
 12 Week: 7.14
 YTD: 1.69

% Price Change Relative to S&P 500

4 Week: 1.53
 12 Week: 6.25
 YTD: -4.57

Share Information

Shares Outstanding (millions): 41.42
 Market Capitalization (millions): 1,815.72
 Short Ratio: 14.01
 Last Split Date: 03/04/2008

Dividend Information

Dividend Yield: 3.28%
 Annual Dividend: \$1.44
 Payout Ratio: 0.56
 Change in Payout Ratio: 0.02
 Last Dividend Payout / Amount: 03/11/2011 / \$0.36

EPS Information

Current Quarter EPS Consensus Estimate: 0.21
 Current Year EPS Consensus Estimate: 2.58
 Estimated Long-Term EPS Growth Rate: 4.00
 Next EPS Report Date: 08/10/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.50
 30 Days Ago: 2.50
 60 Days Ago: 2.50
 90 Days Ago: 2.50

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-------------------------------|------------------------------|
| Current FY Estimate: 16.97 | vs. Previous Year: 4.55% | vs. Previous Year: 6.39% |
| Trailing 12 Months: 17.13 | vs. Previous Quarter: 130.00% | vs. Previous Quarter: 37.00% |
| PEG Ratio: 4.24 | | |

| Price Ratios | | ROE | | ROA | | |
|--------------------|-------|----------------|--|------------------|----------|-------|
| Price/Book | 2.45 | 03/31/11 | | 14.49 | 03/31/11 | 4.14 |
| Price/Cash Flow | 13.39 | 12/31/10 | | 13.92 | 12/31/10 | 4.05 |
| Price / Sales | 0.65 | 09/30/10 | | 13.91 | 09/30/10 | 4.14 |
| Current Ratio | | Quick Ratio | | Operating Margin | | |
| 03/31/11 | - | 03/31/11 | | - | 03/31/11 | 3.80 |
| 12/31/10 | 1.09 | 12/31/10 | | 0.65 | 12/31/10 | 3.77 |
| 09/30/10 | 1.11 | 09/30/10 | | 0.63 | 09/30/10 | 3.86 |
| Net Margin | | Pre-Tax Margin | | Book Value | | |
| 03/31/11 | 3.49 | 03/31/11 | | 3.49 | 03/31/11 | - |
| 12/31/10 | 4.61 | 12/31/10 | | 4.61 | 12/31/10 | 17.86 |
| 09/30/10 | 6.52 | 09/30/10 | | 6.52 | 09/30/10 | 17.61 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | | |
| 03/31/11 | 7.51 | 03/31/11 | | - | 03/31/11 | - |
| 12/31/10 | 8.34 | 12/31/10 | | 0.59 | 12/31/10 | 36.96 |
| 09/30/10 | 8.34 | 09/30/10 | | 0.59 | 09/30/10 | 37.15 |



| NORTHWEST NAT GAS CO (NYSE) | | | | | Scottrade |
|-----------------------------|-------|--------|---------|-------------|-----------|
| NWN | 45.09 | ± 0.48 | (1.08%) | Vol. 49,580 | 14:02 ET |

NW Natural is principally engaged in the distribution of natural gas. The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

General Information

NORTHWEST NAT G

Phone: -

Fax: -


Web: -

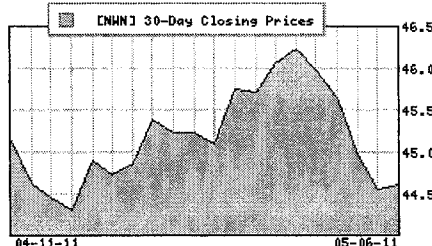
Email: None

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 03/31/11
Next EPS Date: 08/10/2011

Price and Volume Information

Zacks Rank 
Yesterday's Close: 44.61
52 Week High: 50.86
52 Week Low: 41.90
Beta: 0.31
20 Day Moving Average: 114,048.75
Target Price Consensus: 47.33



% Price Change

4 Week: -1.83
12 Week: -1.65
YTD: -4.00

% Price Change Relative to S&P 500

4 Week: -2.71
12 Week: -2.46
YTD: -9.92

Share Information

Shares Outstanding (millions): 26.67
Market Capitalization (millions): 1,189.70
Short Ratio: 12.96
Last Split Date: 09/09/1996

Dividend Information

Dividend Yield: 3.90%
Annual Dividend: \$1.74
Payout Ratio: 0.66
Change in Payout Ratio: 0.08
Last Dividend Payout / Amount: 04/27/2011 / \$0.44

EPS Information

Current Quarter EPS Consensus Estimate: 0.18
Current Year EPS Consensus Estimate: 2.59
Estimated Long-Term EPS Growth Rate: 4.60
Next EPS Report Date: 08/10/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.25
30 Days Ago: 2.25
60 Days Ago: 2.25
90 Days Ago: 2.25

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|------------------------------|------------------------------|
| Current FY Estimate: 17.21 | vs. Previous Year: -6.71% | vs. Previous Year: 12.76% |
| Trailing 12 Months: 17.03 | vs. Previous Quarter: 37.84% | vs. Previous Quarter: 20.49% |
| PEG Ratio: 3.72 | | |

Price Ratios

ROE

ROA

| | | | | | |
|---------------------------|-------|-----------------------|-------|-------------------------|-------|
| Price/Book | 1.64 | 03/31/11 | 10.04 | 03/31/11 | 2.78 |
| Price/Cash Flow | 8.63 | 12/31/10 | 10.56 | 12/31/10 | 2.93 |
| Price / Sales | 1.40 | 09/30/10 | 10.95 | 09/30/10 | 3.07 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 03/31/11 | 0.66 | 03/31/11 | 0.54 | 03/31/11 | 8.23 |
| 12/31/10 | 0.71 | 12/31/10 | 0.53 | 12/31/10 | 8.95 |
| 09/30/10 | 0.56 | 09/30/10 | 0.35 | 09/30/10 | 8.73 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 03/31/11 | 13.80 | 03/31/11 | 13.80 | 03/31/11 | 27.12 |
| 12/31/10 | 15.04 | 12/31/10 | 15.04 | 12/31/10 | 26.02 |
| 09/30/10 | 14.46 | 09/30/10 | 14.46 | 09/30/10 | 25.41 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 03/31/11 | 7.69 | 03/31/11 | 0.76 | 03/31/11 | 43.27 |
| 12/31/10 | 6.85 | 12/31/10 | 0.85 | 12/31/10 | 46.05 |
| 09/30/10 | 7.34 | 09/30/10 | 0.88 | 09/30/10 | 46.70 |

**PIEDMONT NAT GAS INC (NYSE)****Scottrade**

| | | | | | |
|-----|-------|---------|----------|--------------|----------|
| PNY | 31.12 | ▼ -0.34 | (-1.08%) | Vol. 133,337 | 15:11 ET |
|-----|-------|---------|----------|--------------|----------|

Piedmont Natural Gas Co., Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

General Information

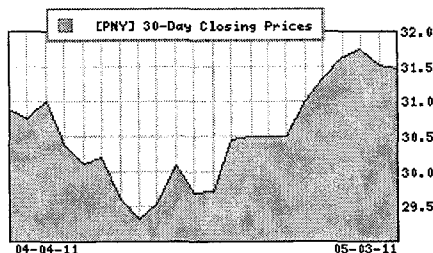
PIEDMONT NAT GA
4720 PIEDMONT ROW DR
CHARLOTTE, NC 28233
Phone: -
Fax: 704-365-3849
Web: <http://www.piedmontng.com>
Email: investorrelations@piedmontng.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: October
Last Reported Quarter: 04/30/11
Next EPS Date: 06/07/2011

Price and Volume Information

| | |
|------------------------|------------|
| Zacks Rank | |
| Yesterday's Close | 31.46 |
| 52 Week High | 32.00 |
| 52 Week Low | 24.50 |
| Beta | 0.26 |
| 20 Day Moving Average | 207,969.34 |
| Target Price Consensus | 28.5 |

**% Price Change**

| | |
|---------|-------|
| 4 Week | 2.28 |
| 12 Week | 10.93 |
| YTD | 12.52 |

% Price Change Relative to S&P 500

| | |
|---------|------|
| 4 Week | 0.47 |
| 12 Week | 8.31 |
| YTD | 4.73 |

Share Information

| | |
|----------------------------------|------------|
| Shares Outstanding (millions) | 71.78 |
| Market Capitalization (millions) | 2,258.32 |
| Short Ratio | 14.55 |
| Last Split Date | 11/01/2004 |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 3.69% |
| Annual Dividend | \$1.16 |
| Payout Ratio | 0.00 |
| Change in Payout Ratio | 0.00 |
| Last Dividend Payout / Amount | 03/23/2011 / \$0.29 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.67 |
| Current Year EPS Consensus Estimate | 1.58 |
| Estimated Long-Term EPS Growth Rate | 4.80 |
| Next EPS Report Date | 06/07/2011 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 3.38 |
| 30 Days Ago | 3.38 |
| 60 Days Ago | 3.43 |
| 90 Days Ago | 3.43 |

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------|----------------------------|---------------------------------|
| Current FY Estimate: | 19.97 vs. Previous Year | 1.75% vs. Previous Year |
| Trailing 12 Months: | 20.17 vs. Previous Quarter | 1,066.67% vs. Previous Quarter: |
| PEG Ratio | 4.19 | -3.22% 235.92% |

| Price Ratios | | ROE | | ROA | |
|--------------------|-------|----------------|-------|------------------|-------|
| Price/Book | 2.24 | 04/30/11 | - | 04/30/11 | - |
| Price/Cash Flow | 10.59 | 01/31/11 | 11.31 | 01/31/11 | 3.67 |
| Price / Sales | 1.48 | 10/31/10 | 11.31 | 10/31/10 | 3.65 |
| Current Ratio | | Quick Ratio | | Operating Margin | |
| 04/30/11 | - | 04/30/11 | - | 04/30/11 | - |
| 01/31/11 | 0.78 | 01/31/11 | 0.62 | 01/31/11 | 7.36 |
| 10/31/10 | 0.66 | 10/31/10 | 0.44 | 10/31/10 | 7.21 |
| Net Margin | | Pre-Tax Margin | | Book Value | |
| 04/30/11 | - | 04/30/11 | - | 04/30/11 | - |
| 01/31/11 | 11.99 | 01/31/11 | 11.99 | 01/31/11 | 14.02 |
| 10/31/10 | 15.06 | 10/31/10 | 15.06 | 10/31/10 | 13.38 |
| Inventory Turnover | | Debt-to-Equity | | Debt to Capital | |
| 04/30/11 | - | 04/30/11 | - | 04/30/11 | - |
| 01/31/11 | 11.84 | 01/31/11 | 0.66 | 01/31/11 | 39.82 |
| 10/31/10 | 11.93 | 10/31/10 | 0.70 | 10/31/10 | 41.05 |



| | | | | | |
|-------------------------------------|--------------|---------------|----------------|--------------------|------------------|
| SOUTH JERSEY INDS INC (NYSE) | | | | | Scottrade |
| SJI | 56.25 | ▲ 0.67 | (1.21%) | Vol. 20,812 | 14:04 ET |

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

General Information

SOUTH JERSEY IN

Phone: -

Fax: -

Web: -

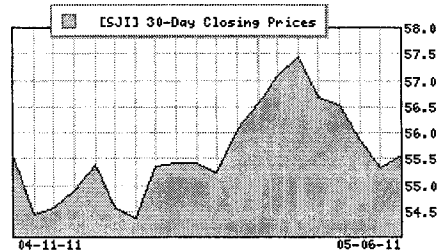
Email: None

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 03/31/11
Next EPS Date: 05/09/2011

Price and Volume Information

Zacks Rank 
Yesterday's Close: 55.58
52 Week High: 58.03
52 Week Low: 41.17
Beta: 0.30
20 Day Moving Average: 73,134.25
Target Price Consensus: 59.5



% Price Change

4 Week: -1.56
12 Week: 4.00
YTD: 5.23

% Price Change Relative to S&P 500

4 Week: -2.44
12 Week: 3.15
YTD: -1.26

Share Information

Shares Outstanding (millions): 29.88
Market Capitalization (millions): 1,660.95
Short Ratio: 16.51
Last Split Date: 07/01/2005

Dividend Information

Dividend Yield: 2.63%
Annual Dividend: \$1.46
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 03/08/2011 / \$0.37

EPS Information

Current Quarter EPS Consensus Estimate: 1.62
Current Year EPS Consensus Estimate: 3.06
Estimated Long-Term EPS Growth Rate: 6.50
Next EPS Report Date: 05/09/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.67
30 Days Ago: 1.67
60 Days Ago: 1.57
90 Days Ago: 1.57

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|----------------------|------------------------------|
| Current FY Estimate: 18.14 | vs. Previous Year | 4.82% vs. Previous Year |
| Trailing 12 Months: 20.58 | vs. Previous Quarter | 770.00% vs. Previous Quarter |
| PEG Ratio: 2.79 | | |

Price Ratios

ROE

ROA

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Book | 2.91 | 03/31/11 | - | 03/31/11 | - |
| Price/Cash Flow | 13.21 | 12/31/10 | 14.42 | 12/31/10 | 4.22 |
| Price / Sales | - | 09/30/10 | 14.34 | 09/30/10 | 4.32 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 0.66 | 12/31/10 | 0.55 | 12/31/10 | 8.75 |
| 09/30/10 | 0.58 | 09/30/10 | 0.41 | 09/30/10 | 9.22 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 10.72 | 12/31/10 | 10.72 | 12/31/10 | 19.08 |
| 09/30/10 | 11.28 | 09/30/10 | 11.28 | 09/30/10 | 18.62 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 9.14 | 12/31/10 | 0.60 | 12/31/10 | 37.36 |
| 09/30/10 | 7.65 | 09/30/10 | 0.51 | 09/30/10 | 33.88 |

**SOUTHWEST GAS CORP (NYSE)****Scottrade**

| | | | | | |
|------------|--------------|--------------|----------------|--------------------|-----------------|
| SWX | 38.87 | ▲0.12 | (0.31%) | Vol. 82,307 | 14:05 ET |
|------------|--------------|--------------|----------------|--------------------|-----------------|

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

General Information**SOUTHWEST GAS**

-,-

Phone: -

Fax: -

Web: -

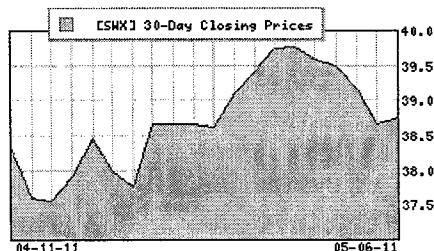
Email: None

| | |
|----------|----------------|
| Industry | UTIL-GAS DISTR |
| Sector: | Utilities |

| | |
|-----------------------|------------|
| Fiscal Year End | December |
| Last Reported Quarter | 03/31/11 |
| Next EPS Date | 08/08/2011 |

Price and Volume Information

| | |
|------------------------|------------|
| Zacks Rank | |
| Yesterday's Close | 38.75 |
| 52 Week High | 39.98 |
| 52 Week Low | 28.12 |
| Beta | 0.73 |
| 20 Day Moving Average | 130,299.05 |
| Target Price Consensus | 36.25 |

**% Price Change**

| | |
|---------|-------|
| 4 Week | -0.33 |
| 12 Week | 1.17 |
| YTD | 5.67 |

% Price Change Relative to S&P 500

| | |
|---------|-------|
| 4 Week | -1.23 |
| 12 Week | 0.34 |
| YTD | -0.84 |

Share Information

| | |
|----------------------------------|----------|
| Shares Outstanding (millions) | 45.80 |
| Market Capitalization (millions) | 1,774.91 |
| Short Ratio | 8.47 |
| Last Split Date | N/A |

Dividend Information

| | |
|-------------------------------|---------------------|
| Dividend Yield | 2.58% |
| Annual Dividend | \$1.00 |
| Payout Ratio | 0.39 |
| Change in Payout Ratio | -0.07 |
| Last Dividend Payout / Amount | 02/11/2011 / \$0.25 |

EPS Information

| | |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.02 |
| Current Year EPS Consensus Estimate | 2.22 |
| Estimated Long-Term EPS Growth Rate | 6.00 |
| Next EPS Report Date | 08/08/2011 |

Consensus Recommendations

| | |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 3.14 |
| 30 Days Ago | 3.50 |
| 60 Days Ago | 3.50 |
| 90 Days Ago | 3.50 |

Fundamental Ratios

| P/E | | EPS Growth | | Sales Growth | |
|----------------------|-------|----------------------|--------|-----------------------|--------|
| Current FY Estimate: | 17.47 | vs. Previous Year | 4.23% | vs. Previous Year | -6.03% |
| Trailing 12 Months: | 15.20 | vs. Previous Quarter | 51.02% | vs. Previous Quarter: | 34.25% |
| PEG Ratio | 2.91 | | | | |
| Price Ratios | | ROE | | ROA | |
| Price/Book | 1.51 | 03/31/11 | 10.28 | 03/31/11 | 3.06 |
| Price/Cash Flow | | 12/31/10 | | 12/31/10 | |

| | | | | | |
|---------------------------|------|----------|-----------------------|----------|-------------------------|
| | 6.67 | | 9.90 | | 2.96 |
| Price / Sales | 0.99 | 09/30/10 | 10.16 | 09/30/10 | 3.01 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | 6.56 |
| 12/31/10 | 0.75 | 12/31/10 | 0.75 | 12/31/10 | 6.20 |
| 09/30/10 | 0.57 | 09/30/10 | 0.57 | 09/30/10 | 6.18 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | 8.65 | 12/31/10 | 8.65 | 12/31/10 | 25.62 |
| 09/30/10 | 8.62 | 09/30/10 | 8.62 | 09/30/10 | 24.62 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 03/31/11 | - | 03/31/11 | - | 03/31/11 | - |
| 12/31/10 | - | 12/31/10 | 0.96 | 12/31/10 | 49.08 |
| 09/30/10 | - | 09/30/10 | 0.96 | 09/30/10 | 49.02 |

**WGL HLDGS INC (NYSE)****Scottrade**

WGL 38.85 ▲ 0.66 (1.73%) Vol. 130,026

14:03 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

General Information

WGL HLDGS INC

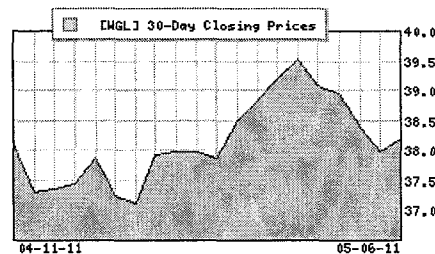
Phone: -
Fax: -
Web: -
Email: None

Industry UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End September
Last Reported Quarter 03/31/11
Next EPS Date 08/10/2011

Price and Volume Information

Zacks Rank
Yesterday's Close 38.19
52 Week High N/A
52 Week Low 32.75
Beta 0.26
20 Day Moving Average 151,953.20
Target Price Consensus 39

**% Price Change**

4 Week -0.75
12 Week 1.41
YTD 6.77

% Price Change Relative to S&P 500

4 Week -1.64
12 Week 0.57
YTD 0.19

Share Information

Shares Outstanding (millions) 51.11
Market Capitalization (millions) 1,952.01
Short Ratio 18.69
Last Split Date 05/02/1995

Dividend Information

Dividend Yield 4.06%
Annual Dividend \$1.55
Payout Ratio 0.69
Change in Payout Ratio 0.06
Last Dividend Payout / Amount 04/06/2011 / \$0.39

EPS Information

Current Quarter EPS Consensus Estimate -0.09
Current Year EPS Consensus Estimate 2.05
Estimated Long-Term EPS Growth Rate 5.30
Next EPS Report Date 08/10/2011

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.25
30 Days Ago 2.25
60 Days Ago 2.25
90 Days Ago 2.50

Fundamental Ratios

| P/E | EPS Growth | Sales Growth |
|----------------------------|-----------------------------|------------------------------|
| Current FY Estimate: 18.59 | vs. Previous Year -6.71% | vs. Previous Year -3.73% |
| Trailing 12 Months: 17.44 | vs. Previous Quarter 50.00% | vs. Previous Quarter: 27.81% |
| PEG Ratio 3.54 | | |

Price Ratios**ROE****ROA**

| | | | | | |
|---------------------------|-------|----------|-----------------------|----------|-------------------------|
| Price/Book | 1.54 | 03/31/11 | 9.35 | 03/31/11 | 3.01 |
| Price/Cash Flow | 9.10 | 12/31/10 | 9.82 | 12/31/10 | 3.17 |
| Price / Sales | 0.71 | 09/30/10 | 9.86 | 09/30/10 | 3.22 |
| Current Ratio | | | Quick Ratio | | Operating Margin |
| 03/31/11 | 1.51 | 03/31/11 | 1.37 | 03/31/11 | 4.11 |
| 12/31/10 | 1.30 | 12/31/10 | 1.00 | 12/31/10 | 4.19 |
| 09/30/10 | 1.32 | 09/30/10 | 0.83 | 09/30/10 | 4.25 |
| Net Margin | | | Pre-Tax Margin | | Book Value |
| 03/31/11 | 7.91 | 03/31/11 | 7.91 | 03/31/11 | 24.73 |
| 12/31/10 | 7.74 | 12/31/10 | 7.74 | 12/31/10 | 23.53 |
| 09/30/10 | 6.82 | 09/30/10 | 6.82 | 09/30/10 | 22.68 |
| Inventory Turnover | | | Debt-to-Equity | | Debt to Capital |
| 03/31/11 | 11.28 | 03/31/11 | 0.49 | 03/31/11 | 32.24 |
| 12/31/10 | 11.69 | 12/31/10 | 0.53 | 12/31/10 | 34.15 |
| 09/30/10 | 11.71 | 09/30/10 | 0.51 | 09/30/10 | 33.41 |

ATTACHMENT D

**Jon Markman**

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Posted 1/12/2005

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Invest in the coming global water shortage

Fresh water's getting scarce, and it has no substitutes. For investors in companies that can supply our increasingly thirsty planet, that spells opportunity.

By [Jon D. Markman](#)

Ten years ago next Monday, a massive earthquake rolled under the Japanese city of Kobe at dawn, toppling 140,000 buildings, causing 300 major fires, killing more than 5,000 people and leaving 300,000 homeless.

To help cover the story for the L.A. Times, I left my wife to care for our 10-day-old daughter and 2-year-old son and flew into the city with a small team of Los Angeles-based trauma doctors and nurses. We found a surreal, smoking ruin of a city with roads twisted like coils of rope, high-rises tilted at Dr. Seuss angles and thousands of middle-class families jammed into dingy, ice-cold rooms in the few public buildings left standing.

Just as in the tsunami zone of South Asia this month, the immediate health danger, besides a possible outbreak of disease, was a lack of fresh water. More than 75% of the city's water supply was destroyed when underground pipes fractured. As much as they desired pallets of drugs, food, blankets and tents sent from throughout Japan and abroad, the Kobe survivors coveted -- and needed -- clean, bottled water for cooking, drinking and bathing.

Both incidents are a stark reminder that water is our most precious resource. Because it is seemingly ubiquitous in the United States, it is taken for granted.

Massive snowstorms in California this month have loaded up the snowpack that provides water there, and rains in the Southeast are filling reservoirs in that part of the country.

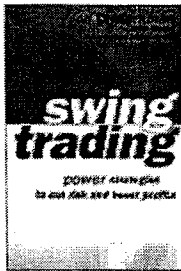
The rest of the world, however, is not so fortunate.

Not making any more water

There is no more fresh water on Earth today than there was a million years ago. Yet today, 6 billion people share it. Since 1950, the world population has doubled, but water use has tripled, notes John Dickerson, an analyst and fund manager based in San Diego. Unlike petroleum, he adds, no technological innovation can ever replace water.

China, which is undergoing a vast rural-to-urban population migration, is emblematic of the places where water has become scarce. It has about as much

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Jon Markman's book
"Swing Trading"
at MSN Shopping.

water as Canada but 100 times more people. Per-capita water reserves are only about a fourth the global average, according to experts. Of its 669 cities, 440 regularly suffer moderate to critical water shortages.

Although not widely appreciated, water has been recognized by conservative investors as an investment opportunity -- and it has rewarded them. Over the past 10 years, the Media General water utilities index is up 133%, double the return of the **Dow Jones Utilities Index** (\$UTIL). Over the past five years, water utilities are up 32% -- clobbering the flat returns of both the Dow Jones Utilities and the **Dow Industrials** (\$INDU). One of water's key long-term value drivers as an investment, according to Dickerson: Demand is not affected by inflation, recession, interest rates or changing tastes.

Related Articles

[Wring profits from the coming water shortage](#)

SuperModels

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Virtually all of the U.S. water utility stocks are regulated by states and counties, which makes them pretty dull. Governmental entities typically give utilities a monopoly in a geographic region, then set their profit margin a smidge above costs. Just about the only distinguishing factor among them are the growth rates of their regions and their ability to efficiently manage their underground pipe and pumping infrastructure. Among the best are **Aqua America** (WTR, [news](#), [msgs](#)) of Philadelphia, **Southwest Water** (SWWC, [news](#), [msgs](#)) of Los Angeles; **California Water Service Group** (CWT, [news](#), [msgs](#)), based in San Jose, Calif.; and **American States Water** (AWR, [news](#), [msgs](#)) of San Dimas, Calif.

In a moment, I'll offer a couple of potentially more impactful ways to invest in water, but first let's look a little more broadly at world demand.

Aquifers in India are being sucked dry

The tsunami has focused attention on water demand in South Asia -- and it's a good thing, as it was already reaching critical status in rural areas. Several decades ago, farmers in the Indian state of Gujarat used oxen to haul water in buckets from a few feet below the surface. Now they pump it from 1,000 feet below the surface. That may sound good, but they have been drawing water from the earth to feed a mushrooming population at such a terrific rate that ancient aquifers have been sucked dry -- turning once-fertile fields slowly into sand.

According to New Scientist magazine, farmers using crude oilfield technology in India have drilled 21 million "tube wells" into the strata beneath the fields, and every year millions more wells throughout the region -- all the way to Vietnam -- are being dug to service water-needy crops like rice and sugar cane. The magazine quoted research from the annual Stockholm Water Symposium that the pumps that transformed Indian farming are drawing 200 cubic kilometers of water to the surface each year, while only a fraction is replaced by monsoon

rains. At this rate, the research suggested, groundwater supplies in some areas will be exhausted in five to 10 years, and millions of Indians will see their farmland turned to desert.

In China, the magazine reported, 30 cubic kilometers more water is being pumped to the surface each year than is replaced by rain -- one of the reasons that the country has become dependent on grain imports from the West. This is not just an issue for agriculture. Earlier this year, the Indian state of Kerala ordered the **PepsiCo** (PEP, [news](#), [msgs](#)) and **Coca-Cola** (KO, [news](#), [msgs](#)) bottling plants closed due to water shortages, costing the companies millions of dollars.

In this country, shareholder activists already are lobbying companies to share water-dependency concerns worldwide with their stakeholders in their financial statements.

Water, water everywhere, but . . .

The central problem is that less than 2% of the world's ample store of water is fresh. And that amount is bombarded by industrial pollution, disease and cyclical shifts in rain patterns. Its increasing scarcity has impelled private companies and countries to attempt to lock up rights to key sources. In an [article](#) last month, the Christian Science Monitor suggested that the next decade may see a cartel of water-exporting countries rivaling the Organization of Petroleum Exporting Countries for dominance in the world economy.

"Water is blue gold; it's terribly precious," Maude Barlow, chair of the Council of Canadians, told the Monitor. "Not too far in the future, we're going to see a move to surround and commodify the world's fresh water. Just as they've divvied up the world's oil, in the coming century, there's going to be a grab."

Besides the domestic water utilities listed above -- and similarly plodding foreign utilities such as **United Utilities** (UU, [news](#), [msgs](#)) of the United Kingdom, which sports a 6.9% dividend yield, and **Suez** (SZE, [news](#), [msgs](#)) of France -- investors interested in the sector can consider a number of variant plays. None are extremely exciting, but my guess is that, over the next few years, some more interesting purification technologies will emerge, along with, perhaps, a vibrant attempt at worldwide industry consolidation.

One current idea is Tennessee-based copper pipe and valve maker **Mueller Industries** (MLI, [news](#), [msgs](#)), a \$1 billion business with a trailing price/earnings multiple of 15 that is still not expensive despite a 47% run-up in the past year. Its leading outside investor is **Berkshire Hathaway** (BRK.A, [news](#), [msgs](#)), the

investment vehicle of legendary investor Warren Buffett.

Another is flow-control products maker **Watts Water**

Technologies (WTS, [news](#), [msgs](#)), which is a little richer at a \$975 million market cap and a trailing P/E multiple of 19, but is still owned by several leading value managers, including Mario Gabelli.

And possibly the most interesting is **Consolidated Water** (CWCO, [news](#), [msgs](#)), a \$160 million company based in the Cayman Islands that specializes in developing and operating ocean-water desalinization plants and water-distribution systems in areas where natural supplies of drinking water are scarce, such as the Caribbean and South America. It currently supplies water to Belize, Barbados, the British Virgin Islands and the Bahamas, and it has expansion plans. It is the most expensive, but it may also have the greatest growth prospects. Of all of these, it is up the most over the past five years, a relatively steady 355%.

Of course, there is one other benefit to water investing: When these companies say they're going to do a dilutive deal, it's not something to worry about.

Fine Print

Dickerson runs a hedge fund in San Diego strictly focused on water investing, the Summit Water Equity Fund. . . To learn more about Southwest Water, [click here](#). . . . To learn more about California Water Service Group, which runs systems in New Mexico, Hawaii and Washington State, as well as California, [click here](#). . . . To learn more about American States Water, [click here](#). . . To learn more about Mueller, [click here](#), and, for Consolidated Water, [click here](#). . . Seems like talk is cheap. Since mid-December, the value of the company radio personality Howard Stern is leaving, **Viacom** (VIA.B, [news](#), [msgs](#)), has risen 9% while the value of the company he's headed to, **Sirius Satellite Radio** (SIRI, [news](#), [msgs](#)), is down 13.5%. . . . For background on the Kobe earthquake, approaching its 10th anniversary, [click here](#) and [here](#).

Jon D. Markman is publisher of [StockTactics Advisor](#), an independent weekly investment newsletter, as well as senior strategist and portfolio manager at Pinnacle Investment Advisors. While he cannot provide personalized investment advice or recommendations, he welcomes column critiques and comments at jon.markman@gmail.com; put COMMENT in the subject line. At the time of publication he held positions in the following stocks mentioned in this column: Coca-Cola.

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ATTACHMENT E

VALUATION

MEASURING AND MANAGING THE VALUE OF COMPANIES

FOURTH EDITION

McKinsey & Company

Tim Koller

Marc Goedhart

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Estimating the Cost of Capital

To value a company using enterprise DCF, we discount free cash flow by the weighted average cost of capital (WACC). The weighted average cost of capital represents the opportunity cost that investors face for investing their funds in one particular business instead of others with similar risk.

The most important principle underlying successful implementation of the cost of capital is consistency between the components of WACC and free cash flow. Since free cash flow is the cash flow available to all financial investors (debt, equity, and hybrid securities), the company's WACC must include the required return for each investor. In addition, the duration and risk of the financial securities used to estimate the WACC must match that of the free cash flow being discounted. To assure consistency, the cost of capital must meet several criteria:

- It must include the opportunity costs from *all* sources of capital—debt, equity, and so on—since free cash flow is available to all investors, who expect compensation for the risks they take.
- It must weight each security's required return by its target market-based weight, not by its historical book value.
- It must be computed after corporate taxes (since free cash flow is calculated in after-tax terms). Any financing-related tax shields not included in free cash flow must be incorporated into the cost of capital or valued separately (as done in the adjusted present value).
- It must be denominated in the same currency as free cash flow.
- It must be denominated in nominal terms when cash flows are stated in nominal terms.

For most companies, discounting free cash flow at the WACC is a simple, accurate, and robust method of corporate valuation. If, however, the

since no single model for estimating the market risk premium has gained universal acceptance, we present the results of various models.

Methods to estimate the market risk premium fall in three general categories:

1. Estimating the future risk premium by measuring and extrapolating historical excess returns.
2. Using regression analysis to link current market variables, such as the aggregate dividend-to-price ratio, to project the expected market risk premium.
3. Using DCF valuation, along with estimates of return on investment and growth, to reverse engineer the market's cost of capital.

None of today's models precisely estimate the market risk premium. Still, based on evidence from each of these models, we believe the market risk premium as of year-end 2003 was just under 5 percent.

Historical market risk premium Investors, being risk-averse, demand a premium for holding stocks rather than bonds. If the level of risk aversion hasn't changed over the last 75 years, then historical excess returns are a reasonable proxy for future premiums (assuming measurement issues, such as survivorship bias, aren't overly problematic). To best measure the risk premium using historical data, follow these guidelines:

- Calculate the premium relative to long-term government bonds.
- Use the longest period possible.
- Use an arithmetic average of longer-dated intervals (such as five years).
- Adjust the result for econometric issues, such as survivorship bias.

Use long-term government bonds When calculating the market risk premium, compare historical market returns with the return on 10-year government bonds. As discussed in the previous section, long-term government bonds better match the duration of a company's cash flows than do short-term bonds.

Use the longest period possible When using historical observations to predict future results, the issue is what length of history to examine. If the market risk premium is stable, a longer history will reduce estimation error. Alternatively, if the premium changes and estimation error is small, a shorter period is better. To determine the appropriate historical period, we consider any trends in the market risk premium compared with the noise associated with short-term estimates.

To test for the presence of a long-term trend, we regress the U.S. market risk premium versus time. Over the last 100 years, no statistically significant trend is observable.⁷ Based on regression results, the average excess return has fallen by 3.3 basis points a year, but this result is well below its standard error (leading to a low *t*-statistic). In addition, premiums calculated over sub-periods, even as long as 10 years, are extremely noisy. For instance, U.S. stocks outperformed bonds by 18 percent in the 1950s but offered no premium in the 1970s. Given the lack of any discernible trend and the significant volatility of shorter periods, you should use the longest time series possible.

Use arithmetic average of longer-dated intervals When reporting market risk premiums, most data providers report an annual number, such as 6.2 percent per year. But how do they convert a century of data into an annual number? And is an annualized number even important?

Annual returns can be calculated using either an arithmetic average or a geometric average. An arithmetic (simple) average sums each year's observed premium and divides by the number of observations:

$$\text{Arithmetic Average} = \frac{1}{T} \sum_{t=1}^T \frac{1 + R_m(t)}{1 + r_f(t)} - 1$$

A geometric average compounds each year's excess return and takes the root of the resulting product:

$$\text{Geometric Average} = \left(\prod_{t=1}^T \frac{1 + R_m(t)}{1 + r_f(t)} \right)^{1/T} - 1$$

The choice of averaging methodology will affect the results. For instance, between 1903 and 2002, U.S. stocks outperformed long-term government bonds by 6.2 percent per year when averaged arithmetically. Using a geometric average, the number drops to 4.4 percent. This difference is not random; arithmetic averages always exceed geometric averages when returns are volatile.

So which averaging method on historical data best estimates the *expected* future rate of return? To estimate the mean (expectation) for any random variable, well-accepted statistical principles dictate that the arithmetic average is the best unbiased estimator. Therefore, to determine a security's

⁷ Some authors, such as Lewellen, argue that the market risk premium does change over time—and can be measured using financial ratios, such as the dividend yield. We address these models separately. J. Lewellen, "Predicting Returns with Financial Ratios," *Journal of Financial Economics*, 74(2) (2004): 209–235.

expected return for one period, the best unbiased predictor is the arithmetic average of many one-period returns. A one-period risk premium, however, can't value a company with many years of cash flow. Instead, long-dated cash flows must be discounted using a compounded rate of return. But when compounded, the arithmetic average will be *biased* upward (too high).

This bias is caused by estimation error and autocorrelation in returns. Let's examine the effect of estimation error first. To estimate the mean of a distribution, statistical theory instructs you to average the observations. In a finite sample, the sample average (R_A) will equal the true mean (μ) plus an error term (ε):

$$R_A = \mu + \varepsilon$$

Sometimes the error term is positive, so the sample average overestimates the true mean, and at other times, the error term is negative. But the average error term equals 0, so the sample average is an unbiased estimator of the true mean.

To value a cash flow *beyond* one period, we must determine the discount factor by raising R_A to a given power. For instance, to estimate a two-period discount rate, we calculate R_A squared. Squaring R_A leads to the following equation:

$$R_A^2 = (\mu + \varepsilon)^2 = \mu^2 + \varepsilon^2 + 2\mu\varepsilon$$

Since the true mean, μ , is a constant and the expectation of ε is 0, the expectation of $2\mu\varepsilon$ equals 0. The expectation of ε^2 , however, is not 0, but a positive number (the square of any nonzero number is greater than zero). Therefore, R_A^2 will be greater than μ^2 (the true mean squared), and a compounded sample average will be too high.

The compounded arithmetic average will also be biased upward when returns are negatively autocorrelated (meaning low returns follow high returns and high returns follow low returns). Although there is disagreement in the academic community, the general consensus is that the aggregate stock market exhibits negative autocorrelation.⁸ In this case, the arithmetic mean is biased upward.

⁸ Empirical evidence presented by James Poterba, Lawrence Summers, and others indicates that a significant long-term negative autocorrelation exists in stock returns. See J. Poterba and L. Summers, "Mean Reversion in Stock Prices," *Journal of Financial Economics* (October 1988): 27-60. However, subsequent studies by Matthew Richardson and others challenge the statistical significance of earlier studies. See M. Richardson, "Temporary Components of Stock Prices: A Skeptic's View," *Journal of Business and Economic Statistics*, 11 (1993): 199-207.

Exhibit 10.4 Expected Value When Returns Exhibit Negative Autocorrelation

| Scenario | Potential return | Unconditional probability | | Future value | Expected value when returns are independent | | Expected value when returns are negatively autocorrelated | |
|----------|------------------|---------------------------|-----|--------------|---|-------|---|-------|
| | 20% (10%) | 50% | 50% | | 25% | 36.0 | 15% | 21.6 |
| 1 | 100 | 1.2 | 1.2 | 144 | 25% | 36.0 | 15% | 21.6 |
| 2 | 100 | 1.2 | 0.9 | 108 | 25% | 27.0 | 35% | 37.8 |
| 3 | 100 | 0.9 | 1.2 | 108 | 25% | 27.0 | 35% | 37.8 |
| 4 | 100 | 0.9 | 0.9 | 81 | 25% | 20.3 | 15% | 12.2 |
| | | | | | 100% | 110.3 | 100% | 109.4 |

To better understand the effect of negative autocorrelation, consider a portfolio that can either grow by 20 percent or fall by 10 percent in a given period (see Exhibit 10.4). Since both returns are equally likely, the one period average return equals 5 percent. In addition, if returns are independently and identically distributed, after two periods there is:

1. A 25 percent probability that an initial investment of \$100 will grow to \$144
2. A 50 percent probability (two equally probable scenarios) that \$100 will grow to \$108
3. A 25 percent probability that \$100 will shrink to \$81

The expected value in two periods equals \$110.3, the same as if \$100 had grown consistently at the *arithmetic* average of 5 percent for two periods. But if the four scenarios are not equally likely, the expected value in two periods will not equal \$110.3. For instance, if there is a 70 percent probability that low returns will be followed by high returns (or vice versa), the expected value in two periods is only \$109.4. In this case, compounding the arithmetic mean will lead to an upward bias in expected return.

To correct for the bias caused by estimation error and negative autocorrelation in returns, we have two choices. First, we can calculate multiperiod holding returns directly from the data, rather than compound single-period averages. Using this method, a cash flow received in five years will be discounted by the average five-year market risk premium, not by the annual

Exhibit 10.5 Cumulative Returns for Various Intervals, 1903–2002

| Arithmetic mean of: | Number of observations | Cumulative returns | | | Annualized returns | |
|-------------------------|------------------------|--------------------|-----------------------|--------------------|---------------------|-----------------|
| | | U.S. stocks | U.S. government bonds | U.S. excess return | U.S. excess returns | Blume estimator |
| 1-year holding periods | 100 | 11.3 | 5.3 | 6.2 | 6.2 | 6.2 |
| 2-year holding periods | 50 | 24.1 | 10.9 | 13.6 | 6.1 | 6.1 |
| 4-year holding periods | 25 | 49.9 | 23.4 | 23.0 | 5.3 | 6.0 |
| 5-year holding periods | 20 | 68.2 | 29.1 | 32.3 | 5.9 | 5.9 |
| 10-year holding periods | 10 | 165.6 | 72.1 | 70.1 | 5.3 | 5.6 |

Source: Ibbotson/Associates, McKinsey analysis.

market risk premium compounded five times.⁹ In Exhibit 10.5, we present arithmetic averages for holding periods of 1, 2, 4, 5, and 10 years. To avoid placing too little weight on either early or recent observations, we use nonoverlapping returns. The downside of this method is that 5- and 10-year holding periods have very few observations. As shown in the exhibit, the annualized excess return trends downward from 6.2 percent to 5.5 percent as the length of the holding period increases.

Alternatively, researchers have used simulation to show that an estimator proposed by Marshall Blume best adjusts for problems caused by estimation error and autocorrelation of returns:¹⁰

$$R = \frac{T-N}{T-1} R_A + \frac{N-1}{T-1} R_G$$

where T = Number of historical observations

N = Forecast period

R_A = Arithmetic average

R_G = Geometric average

In the last column of Exhibit 10.5, we report Blume's estimate for the market risk premium. Blume's method generates the same downward-trending estimate of the market risk premium (albeit more smoothly than the raw holding period averages). Based on both estimation techniques, it appears 5.5 percent is a reasonable approximation for *historical* excess returns.

⁹Jay Ritter writes, "There is no theoretical reason why one year is the appropriate holding period. People are used to thinking of interest rates as a rate per year, so reporting annualized numbers makes it easy for people to focus on the numbers. But I can think of no reason other than convenience for the use of annual returns." J. Ritter, "The Biggest Mistakes We Teach," *Journal of Financial Research*, 25 (2002): 159–168.

¹⁰D. C. Indro and W. Y. Lee, "Biases in Arithmetic and Geometric Averages Premia," *Financial Management*, 26(4) (Winter 1997); M. E. Blume, "Unbiased Estimators of Long Run Expected Rates of Return," *Journal of the American Statistical Association*, 69(347) (September 1974).

Survivorship bias Other statistical difficulties exist with historical risk premiums. According to one argument,¹¹ even properly measured historical premiums can't predict future returns, because the observable sample will include only countries with strong historical returns. Statisticians refer to this phenomenon as survivorship bias. The U.S. market outperformed all others during the twentieth century, averaging 4.3 percent in real terms (deflating by the wholesale price index) versus a median of 0.8 percent for other countries.¹² A concurring study¹³ notes that the -100 percent returns from China, Russia, and Poland are too often ignored in discussions of stock market performance.

Since it is unlikely that the U.S. stock market will replicate its performance over the next century, we adjust downward the historical arithmetic average market risk premium. Using data from Philippe Jorion and William Goetzmann, we find that between 1926 and 1996, the U.S. arithmetic annual return exceeded the median return on a set of 11 countries with continuous histories dating to the 1920s by 1.9 percent in real terms, or 1.4 percent in nominal terms. If we subtract a 1 percent to 2 percent survivorship bias from the long-term arithmetic average of 5.5 percent, the difference implies the future range of the U.S. market risk premium should be 3.5 to 4.5 percent.

Market risk premium regressions Although we find no long-term trend in the historical risk premium, many argue that the market risk premium is predictable using observable variables, such as the aggregate dividend-to-price ratio, the aggregate book-to-market ratio, or the aggregate ratio of earnings to price.

The use of current financial ratios to estimate the expected return on stocks is well documented and dates back to Charles Dow in the 1920s. The concept has been tested by many authors.¹⁴ To predict the market risk premium using financial ratios, excess market returns are regressed against a financial ratio, such as the market's aggregate dividend-to-price ratio:

$$R_m - r_f = \alpha + \beta \ln \left(\frac{\text{Dividend}}{\text{Price}} \right) + \varepsilon$$

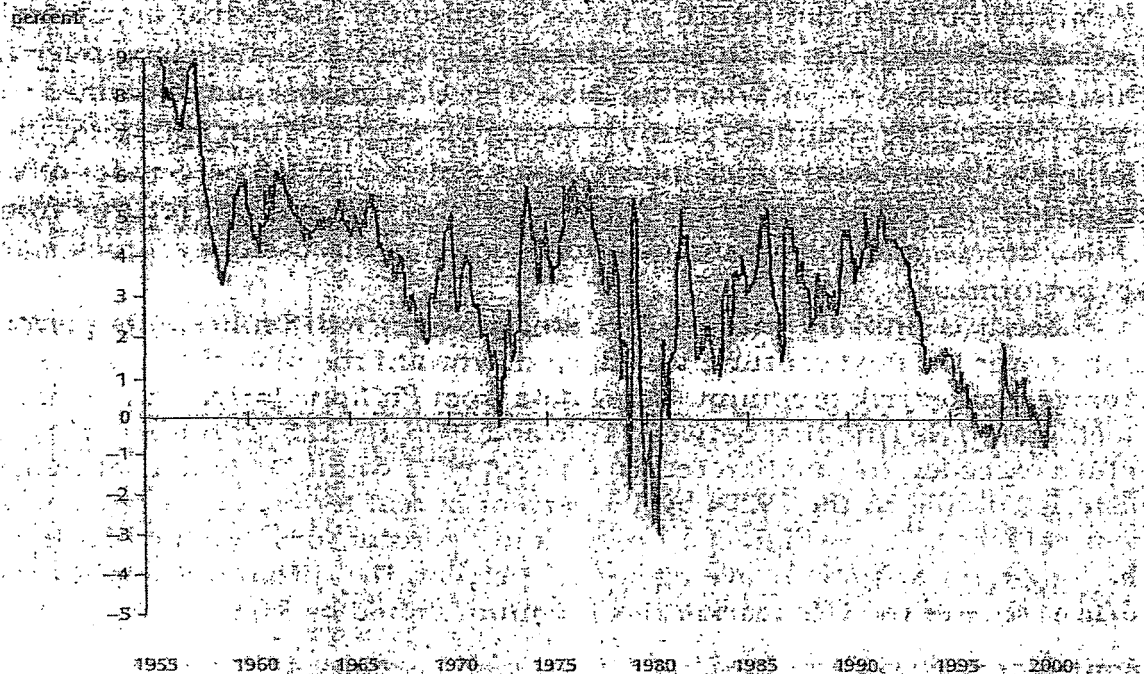
¹¹ S. Brown, W. Goetzmann, and S. Ross, "Survivorship Bias," *Journal of Finance* (July 1995): 853-873.

¹² P. Jorion and W. Goetzmann, "Global Stock Markets in the Twentieth Century," *Journal of Finance*, 54(3) (June 1999): 953-974.

¹³ Elroy Dimson, Paul Marsh, and Michael Staunton, *Triumph of the Optimists* (Princeton: Princeton University Press, 2002).

¹⁴ E. Fama and K. French, "Dividend Yields and Expected Stock Returns," *Journal of Financial Economics*, 22(1) (1988): 3-25; R. F. Stambaugh, "Predictive Regressions," *Journal of Financial Economics*, 54(3) (1999): 375-421; and J. Lewellen, "Predicting Returns with Financial Ratios," *Journal of Financial Economics*, 74(2) (2004): 209-235.

EXHIBIT 10.6 Expected Market Risk Premium Based on Dividend Yield



Source: Lewellen (2004); Goyal and Welch (2003); McKinsey analysis.

Using advanced regression techniques unavailable to earlier authors, Jonathan Lewellen found that dividend yields *do* predict future market returns. But as shown in Exhibit 10.6, the model has a major drawback: the risk premium prediction can be negative (as it was in the late 1990s). Other authors question the explanatory power of financial ratios, arguing that a financial analyst relying solely on data available at the time would have done better using unconditional historical averages (as we did in the last section) in place of more sophisticated regression techniques.¹⁵

Forward-looking models A stock's price equals the present value of its dividends. Assuming dividends are expected to grow at a constant rate, we can rearrange the growing perpetuity to solve for the market's expected return:

$$P = \frac{\text{DIV}}{k_e - g} \text{ converts to } k_e = \frac{\text{DIV}}{P} + g$$

In the previous section, we reviewed regression models that compare market returns (k_e) to the dividend-price ratio (DIV/P). Using a simple re-

¹⁵ A. Goyal and I. Welch, "Predicting the Equity Premium with Dividend Ratios," *Management Science*, 4, 9(5) (2003): 639–654.

gression, however, ignores valuable information and oversimplifies a few market realities. First, the dividend-price yield itself depends on the expected growth in dividends (g), which simple regressions ignore (the regression's intercept is determined by the data). Second, dividends are only one form of corporate payout. Companies can use free cash flow to repurchase shares or hold excess cash for significant periods of time; consider Microsoft, which accumulated more than \$50 billion in liquid securities before paying its first dividend.

Using the principles of discounted cash flow, along with estimates of growth, various authors have attempted to reverse engineer the market risk premium. Two studies used analyst forecasts to estimate growth,¹⁶ but many argue that analyst forecasts focus on the short term and are severely upward biased. Fama and French use long-term dividend growth rates as a proxy for future growth, but they focus on dividend yields, not on available cash flow.¹⁷ Alternatively, our own research has focused on *all* cash flow available to equity holders, as measured by a modified version of the key value driver formula (detailed in Chapter 3):¹⁸

$$k_e = \frac{\text{Earnings} \left(1 - \frac{g}{\text{ROE}} \right)}{P} + g \text{ such that } CF_e = \text{Earnings} \left(1 - \frac{g}{\text{ROE}} \right)$$

Based on this formula, we used the long-run return on equity (13 percent) and the long-run growth in real GDP (3.5 percent) to convert a given year's S&P 500 median earnings-to-price ratio into the cost of equity.¹⁹

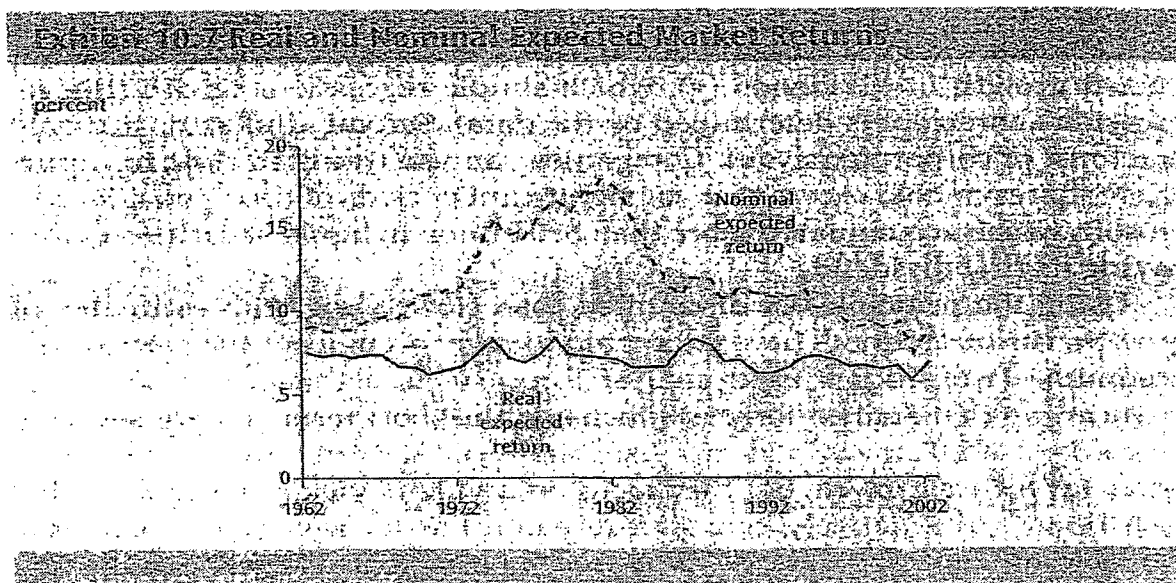
Exhibit 10.7 on page 306 plots the nominal and real expected market returns between 1962 and 2002. The results are striking. After stripping out inflation, the expected market return (*not* excess return) is remarkably constant, averaging 7.0 percent. For the United Kingdom, the real market return is slightly more volatile, averaging 6.0 percent. Based on these results, we estimate the current market risk premium by subtracting the current real long-term risk-free rate from the real equity return of 7.0 percent (for U.S. markets). At year-end 2003, the yield on a U.S. Treasury inflation-protected security (TIPS) equaled 2.1 percent. Subtracting 2.1

¹⁶ J. Claus and J. Thomas, "Equity Premia as Low as Three Percent? Evidence from Analysts' Earnings Forecasts for Domestic and International Stocks," *Journal of Finance*, 56(5) (October 2001): 1629–1666; and W. R. Gebhardt, C. M. C. Lee, and B. Swaminathan, "Toward an Implied Cost of Capital," *Journal of Accounting Research*, 39(1) (2001): 135–176.

¹⁷ Eugene F. Fama and Kenneth R. French, "The Equity Premium," Center for Research in Security Prices Working Paper No. 522 (April 2001).

¹⁸ Marc H. Goedhart, Timothy M. Koller, and Zane D. Williams, "The Real Cost of Equity," *McKinsey on Finance* (Autumn 2002): 11–15.

¹⁹ Using a two-stage model (i.e., short-term ROE and growth rate projections, followed by long-term estimates) did not change the results in a meaningful way.



percent from 7.0 percent gives an estimate of the risk premium at just under 5 percent.

Although many in the finance profession disagree about how to measure the market risk premium, we believe 4.5 to 5.5 percent is an appropriate range. Historical estimates found in most textbooks (and locked in the mind of many), which often report numbers near 8 percent, are too high for valuation purposes because they compare the market risk premium versus short-term bonds, use only 75 years of data, and are biased by the historical strength of the U.S. market.

Estimating beta According to the CAPM, a stock's expected return is driven by beta, which measures how much the stock and market move together. Since beta cannot be observed directly, we must *estimate* its value. To do this, we first measure a raw beta using regression and then improve the estimate by using industry comparables and smoothing techniques. The most common regression used to estimate a company's raw beta is the market model:

$$R_i = \alpha + \beta R_m + \varepsilon$$

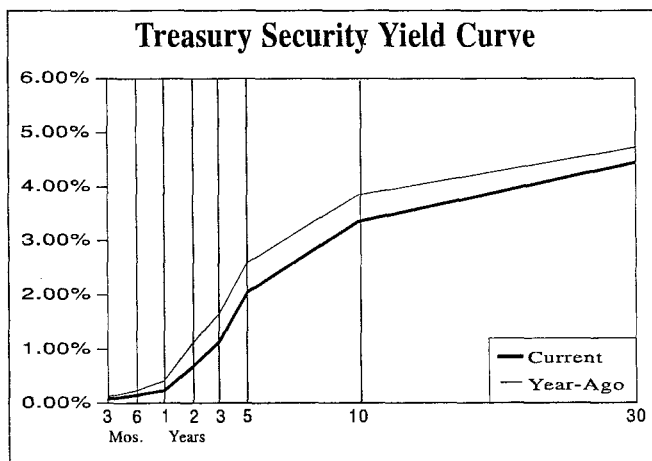
In the market model, the stock's return (not price) is regressed against the market's return.

In Exhibit 10.8, we plot 60 months of Home Depot stock returns versus S&P 500 returns between 1999 and 2003. The solid line represents the "best

ATTACHMENT F

Selected Yields

| | Recent (3/23/11) | 3 Months Ago (12/21/10) | Year Ago (3/24/10) | | Recent (3/23/11) | 3 Months Ago (12/21/10) | Year Ago (3/24/10) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.28 | 0.26 | 0.15 | | | | |
| 3-month LIBOR | 0.31 | 0.30 | 0.28 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.30 | 0.30 | 0.25 | | | | |
| 1-year | 0.48 | 0.49 | 0.44 | | | | |
| 5-year | 1.71 | 1.52 | 1.99 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.08 | 0.13 | 0.13 | | | | |
| 6-month | 0.15 | 0.19 | 0.23 | | | | |
| 1-year | 0.23 | 0.28 | 0.41 | | | | |
| 5-year | 2.05 | 1.95 | 2.59 | | | | |
| 10-year | 3.35 | 3.30 | 3.85 | | | | |
| 10-year (inflation-protected) | 0.95 | 0.98 | 1.61 | | | | |
| 30-year | 4.45 | 4.42 | 4.73 | | | | |
| 30-year Zero | 4.79 | 4.72 | 5.00 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 5.5% | 2.60 | 2.83 | 1.90 | | | | |
| FHLMC 5.5% (Gold) | 3.18 | 3.16 | 1.30 | | | | |
| FNMA 5.5% | 3.06 | 3.01 | 1.85 | | | | |
| FNMA ARM | 2.63 | 2.80 | 2.93 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.63 | 4.75 | 5.18 | | | | |
| Industrial (25/30-year) A | 5.46 | 5.49 | 5.80 | | | | |
| Utility (25/30-year) A | 5.50 | 5.74 | 5.93 | | | | |
| Utility (25/30-year) Baa/BBB | 5.98 | 6.11 | 6.40 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.21 | 3.14 | 3.54 | | | | |
| Germany | 3.24 | 2.99 | 3.08 | | | | |
| Japan | 1.23 | 1.18 | 1.35 | | | | |
| United Kingdom | 3.55 | 3.51 | 3.98 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.00 | 5.79 | 5.42 | | | | |
| Financial A | 6.10 | 6.57 | 5.68 | | | | |
| Financial Adjustable A | 5.47 | 5.47 | 5.47 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.86 | 5.15 | 4.32 | | | | |
| 25-Bond Index (Revs) | 5.50 | 5.48 | 4.92 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.33 | 0.41 | 0.30 | | | | |
| 1-year A | 1.19 | 1.35 | 1.12 | | | | |
| 5-year Aaa | 1.72 | 1.72 | 1.49 | | | | |
| 5-year A | 2.67 | 2.88 | 2.48 | | | | |
| 10-year Aaa | 3.16 | 3.41 | 3.02 | | | | |
| 10-year A | 4.29 | 4.47 | 4.04 | | | | |
| 25/30-year Aaa | 4.75 | 4.88 | 4.44 | | | | |
| 25/30-year A | 6.08 | 5.90 | 5.48 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.15 | 5.25 | 4.77 | | | | |
| Electric AA | 5.28 | 5.27 | 4.75 | | | | |
| Housing AA | 6.10 | 6.13 | 5.57 | | | | |
| Hospital AA | 5.61 | 5.43 | 5.08 | | | | |
| Toll Road Aaa | 5.30 | 5.32 | 4.81 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 3/9/11 | 2/23/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1295731 | 1217540 | 78191 | 1096037 | 1036724 | 1044399 |
| Borrowed Reserves | 20423 | 22001 | -1578 | 32257 | 40916 | 57375 |
| Net Free/Borrowed Reserves | 1275308 | 1195539 | 79769 | 1063780 | 995808 | 987024 |

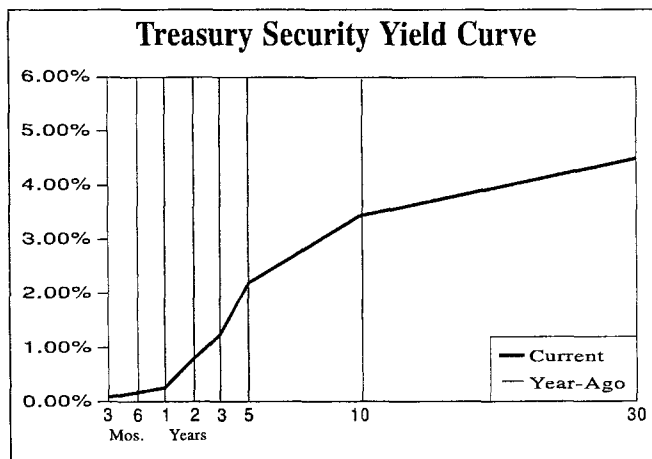
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 3/7/11 | 2/28/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1868.0 | 1898.9 | -30.9 | 11.0% | 12.9% | 9.6% |
| M2 (M1+savings+small time deposits) | 8918.7 | 8909.0 | 9.7 | 5.6% | 5.5% | 4.7% |

Selected Yields

| | Recent (3/30/11) | 3 Months Ago (12/29/10) | Year Ago (3/31/10) | | Recent (3/30/11) | 3 Months Ago (12/29/10) | Year Ago (3/31/10) |
|-----------------------------------|---------------------|-------------------------------|--------------------------|--|---------------------|-------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.22 | 0.28 | 0.14 | | | | |
| 3-month LIBOR | 0.30 | 0.30 | 0.29 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.29 | 0.30 | 0.25 | | | | |
| 1-year | 0.47 | 0.48 | 0.44 | | | | |
| 5-year | 1.71 | 1.55 | 1.99 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.09 | 0.12 | 0.15 | | | | |
| 6-month | 0.17 | 0.19 | 0.23 | | | | |
| 1-year | 0.26 | 0.27 | 0.38 | | | | |
| 5-year | 2.20 | 2.03 | 2.54 | | | | |
| 10-year | 3.44 | 3.35 | 3.83 | | | | |
| 10-year (inflation-protected) | 0.98 | 1.02 | 1.56 | | | | |
| 30-year | 4.50 | 4.43 | 4.71 | | | | |
| 30-year Zero | 4.79 | 4.71 | 4.98 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 5.5% | 2.68 | 3.08 | 2.50 | | | | |
| FHLMC 5.5% (Gold) | 3.28 | 3.13 | 2.04 | | | | |
| FNMA 5.5% | 3.17 | 2.94 | 2.26 | | | | |
| FNMA ARM | 2.63 | 2.80 | 2.76 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.70 | 4.76 | 5.24 | | | | |
| Industrial (25/30-year) A | 5.50 | 5.50 | 5.76 | | | | |
| Utility (25/30-year) A | 5.56 | 5.78 | 5.92 | | | | |
| Utility (25/30-year) Baa/BBB | 6.06 | 6.10 | 6.37 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.29 | 3.16 | 3.57 | | | | |
| Germany | 3.34 | 3.02 | 3.09 | | | | |
| Japan | 1.25 | 1.17 | 1.40 | | | | |
| United Kingdom | 3.67 | 3.57 | 3.94 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 5.70 | 5.79 | 5.91 | | | | |
| Financial A | 6.02 | 6.48 | 6.64 | | | | |
| Financial Adjustable A | 5.48 | 5.48 | 5.48 | | | | |

**TAX-EXEMPT**

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.91 | 5.00 | 4.44 | | | | |
| 25-Bond Index (Revs) | 5.52 | 4.52 | 4.93 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.33 | 0.44 | 0.39 | | | | |
| 1-year A | 1.15 | 1.36 | 1.19 | | | | |
| 5-year Aaa | 1.76 | 1.74 | 1.80 | | | | |
| 5-year A | 2.75 | 2.88 | 2.71 | | | | |
| 10-year Aaa | 3.29 | 3.44 | 3.27 | | | | |
| 10-year A | 4.37 | 4.39 | 4.22 | | | | |
| 25/30-year Aaa | 4.80 | 4.90 | 4.46 | | | | |
| 25/30-year A | 6.08 | 5.90 | 5.24 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.15 | 5.27 | 4.81 | | | | |
| Electric AA | 5.28 | 5.28 | 4.79 | | | | |
| Housing AA | 6.13 | 6.11 | 5.72 | | | | |
| Hospital AA | 5.61 | 5.45 | 5.17 | | | | |
| Toll Road Aaa | 5.32 | 5.33 | 4.80 | | | | |

Federal Reserve Data

BANK RESERVES*(Two-Week Period; in Millions, Not Seasonally Adjusted)*

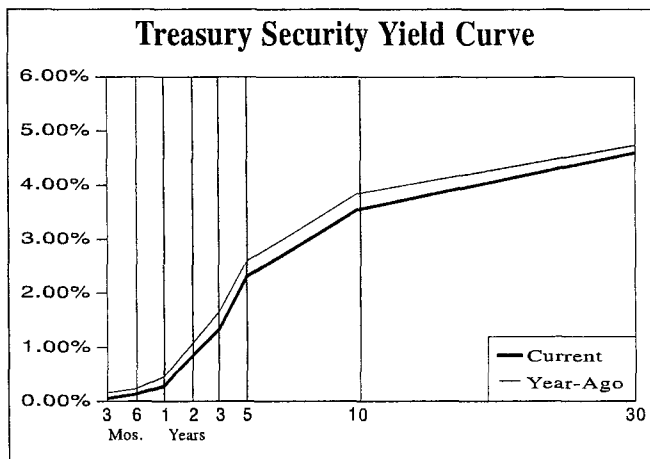
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 3/23/11 | 3/9/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1366438 | 1295729 | 70709 | 1144835 | 1062407 | 1051928 |
| Borrowed Reserves | 19926 | 20423 | -497 | 28576 | 38415 | 54362 |
| Net Free/Borrowed Reserves | 1346512 | 1275306 | 71206 | 1116259 | 1023993 | 997566 |

MONEY SUPPLY*(One-Week Period; in Billions, Seasonally Adjusted)*

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|--------|--------|-------------------------------|--------|---------|
| | 3/14/11 | 3/7/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1864.8 | 1868.0 | -3.2 | 8.5% | 10.1% | 8.3% |
| M2 (M1+savings+small time deposits) | 8893.5 | 8918.7 | -25.2 | 3.8% | 4.6% | 4.5% |

Selected Yields

| | Recent (4/06/11) | 3 Months Ago (1/05/11) | Year Ago (4/07/10) | | Recent (4/06/11) | 3 Months Ago (1/05/11) | Year Ago (4/07/10) |
|---------------------------------|---------------------|------------------------------|--------------------------|-----------------------------------|---------------------|------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | Mortgage-Backed Securities | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | GNMA 5.5% | 2.84 | 2.86 | 2.66 |
| Prime Rate | 3.25 | 3.25 | 3.25 | FHLMC 5.5% (Gold) | 3.46 | 3.19 | 1.96 |
| 30-day CP (A1/P1) | 0.27 | 0.29 | 0.18 | FNMA 5.5% | 3.40 | 3.05 | 2.25 |
| 3-month LIBOR | 0.29 | 0.30 | 0.30 | FNMA ARM | 2.62 | 2.72 | 2.76 |
| Bank CDs | | | | | | | |
| 6-month | 0.29 | 0.30 | 0.25 | Corporate Bonds | | | |
| 1-year | 0.47 | 0.48 | 0.44 | Financial (10-year) A | 4.85 | 4.89 | 5.24 |
| 5-year | 1.71 | 1.57 | 1.99 | Industrial (25/30-year) A | 5.59 | 5.59 | 5.76 |
| U.S. Treasury Securities | | | | Utility (25/30-year) A | 5.66 | 5.86 | 5.91 |
| 3-month | 0.06 | 0.14 | 0.16 | Utility (25/30-year) Baa/BBB | 6.16 | 6.19 | 6.35 |
| 6-month | 0.13 | 0.18 | 0.23 | Foreign Bonds (10-Year) | | | |
| 1-year | 0.28 | 0.28 | 0.45 | Canada | 3.42 | 3.28 | 3.63 |
| 5-year | 2.31 | 2.14 | 2.60 | Germany | 3.43 | 2.94 | 3.12 |
| 10-year | 3.55 | 3.47 | 3.85 | Japan | 1.30 | 1.16 | 1.41 |
| 10-year (inflation-protected) | 0.96 | 1.02 | 1.52 | United Kingdom | 3.76 | 3.55 | 4.06 |
| 30-year | 4.60 | 4.54 | 4.74 | Preferred Stocks | | | |
| 30-year Zero | 4.92 | 4.84 | 5.00 | Utility A | 5.89 | 5.79 | 6.00 |
| | | | | Financial A | 5.84 | 6.48 | 6.63 |
| | | | | Financial Adjustable A | 5.48 | 5.48 | 5.48 |

**TAX-EXEMPT**

| Bond Buyer Indexes | | | |
|-----------------------------------|------|------|------|
| 20-Bond Index (GOs) | 5.00 | 4.95 | 4.44 |
| 25-Bond Index (Revs) | 5.56 | 5.38 | 4.94 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.37 | 0.40 | 0.38 |
| 1-year A | 1.21 | 1.37 | 1.18 |
| 5-year Aaa | 1.85 | 1.75 | 1.86 |
| 5-year A | 2.84 | 2.95 | 2.81 |
| 10-year Aaa | 3.41 | 3.40 | 3.31 |
| 10-year A | 4.48 | 4.41 | 4.29 |
| 25/30-year Aaa | 4.84 | 4.90 | 4.46 |
| 25/30-year A | 6.13 | 5.92 | 5.51 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 5.19 | 5.29 | 4.78 |
| Electric AA | 5.30 | 5.28 | 4.79 |
| Housing AA | 6.19 | 6.13 | 5.73 |
| Hospital AA | 5.65 | 5.43 | 5.19 |
| Toll Road Aaa | 5.34 | 5.33 | 4.78 |

Federal Reserve Data

BANK RESERVES*(Two-Week Period; in Millions, Not Seasonally Adjusted)*

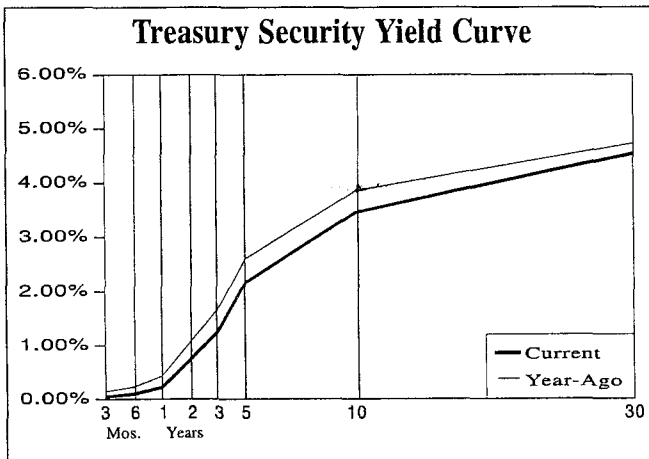
| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 3/23/11 | 3/9/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1366439 | 1295729 | 70710 | 1144835 | 1062407 | 1051928 |
| Borrowed Reserves | 19926 | 20423 | -497 | 28576 | 38415 | 54362 |
| Net Free/Borrowed Reserves | 1346513 | 1275306 | 71207 | 1116259 | 1023993 | 997566 |

MONEY SUPPLY*(One-Week Period; in Billions, Seasonally Adjusted)*

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 3/21/11 | 3/14/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1889.4 | 1864.8 | 24.6 | 12.6% | 13.6% | 9.8% |
| M2 (M1+savings+small time deposits) | 8895.4 | 8893.5 | 1.9 | 3.6% | 4.5% | 4.5% |

Selected Yields

| | Recent (4/13/11) | 3 Months Ago (1/12/11) | Year Ago (4/14/10) | | Recent (4/13/11) | 3 Months Ago (1/12/11) | Year Ago (4/14/10) |
|-------------------------------|---------------------|------------------------------|--------------------------|------------------------------|---------------------|------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | Mortgage-Backed Securities | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | GNMA 5.5% | 2.97 | 2.61 | 2.52 |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | FHLMC 5.5% (Gold) | 3.32 | 3.14 | 1.83 |
| Prime Rate | 3.25 | 3.25 | 3.25 | FNMA 5.5% | 3.22 | 2.99 | 2.14 |
| 30-day CP (A1/P1) | 0.23 | 0.27 | 0.20 | FNMA ARM | 2.62 | 2.72 | 2.76 |
| 3-month LIBOR | 0.28 | 0.30 | 0.30 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 4.72 | 4.80 | 5.22 |
| 6-month | 0.29 | 0.30 | 0.25 | Industrial (25/30-year) A | 5.52 | 5.58 | 5.76 |
| 1-year | 0.47 | 0.48 | 0.43 | Utility (25/30-year) A | 5.66 | 5.77 | 5.89 |
| 5-year | 1.71 | 1.57 | 1.99 | Utility (25/30-year) Baa/BBB | 6.05 | 6.17 | 6.35 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.05 | 0.14 | 0.15 | Canada | 3.37 | 3.26 | 3.71 |
| 6-month | 0.10 | 0.17 | 0.23 | Germany | 3.44 | 3.05 | 3.14 |
| 1-year | 0.22 | 0.26 | 0.43 | Japan | 1.32 | 1.18 | 1.38 |
| 5-year | 2.17 | 1.98 | 2.60 | United Kingdom | 3.71 | 3.64 | 4.03 |
| 10-year | 3.46 | 3.37 | 3.86 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 0.84 | 0.93 | 1.51 | Utility A | 5.83 | 5.79 | 5.99 |
| 30-year | 4.54 | 4.53 | 4.73 | Financial A | 6.44 | 6.03 | 6.60 |
| 30-year Zero | 4.88 | 4.86 | 4.99 | Financial Adjustable A | 5.49 | 5.49 | 5.49 |



TAX-EXEMPT

| | | | |
|--|------|------|------|
| Bond Buyer Indexes | | | |
| 20-Bond Index (GOs) | 5.04 | 5.08 | 4.45 |
| 25-Bond Index (Revs) | 5.61 | 5.44 | 4.96 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.34 | 0.41 | 0.43 |
| 1-year A | 1.20 | 1.28 | 1.18 |
| 5-year Aaa | 1.83 | 1.79 | 1.87 |
| 5-year A | 2.89 | 2.92 | 2.85 |
| 10-year Aaa | 3.46 | 3.38 | 3.30 |
| 10-year A | 4.62 | 4.38 | 4.27 |
| 25/30-year Aaa | 4.86 | 4.94 | 4.45 |
| 25/30-year A | 6.13 | 5.97 | 5.51 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 5.19 | 5.31 | 4.81 |
| Electric AA | 5.34 | 5.30 | 4.79 |
| Housing AA | 6.16 | 6.13 | 5.75 |
| Hospital AA | 5.65 | 5.43 | 5.15 |
| Toll Road Aaa | 5.33 | 5.35 | 4.78 |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 4/6/11 | 3/23/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1431446 | 1366438 | 65008 | 1207727 | 1094946 | 1064070 |
| Borrowed Reserves | 19196 | 19926 | -730 | 24841 | 36026 | 51802 |
| Net Free/Borrowed Reserves | 1412250 | 1346512 | 65738 | 1182886 | 1058920 | 1012268 |

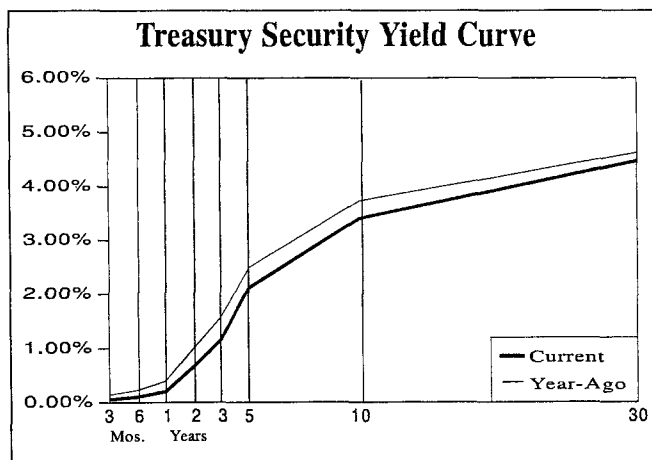
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 3/28/11 | 3/21/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1903.6 | 1891.8 | 11.8 | 14.4% | 14.8% | 11.2% |
| M2 (M1+savings+small time deposits) | 8897.3 | 8898.4 | -1.1 | 2.8% | 3.9% | 4.4% |

Selected Yields

| | Recent (4/20/11) | 3 Months Ago (1/19/11) | Year Ago (4/21/10) | | Recent (4/20/11) | 3 Months Ago (1/19/11) | Year Ago (4/21/10) |
|---------------------------------|---------------------|------------------------------|--------------------------|-----------------------------------|---------------------|------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | Mortgage-Backed Securities | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | GNMA 5.5% | 2.85 | 2.38 | 2.24 |
| Prime Rate | 3.25 | 3.25 | 3.25 | FHLMC 5.5% (Gold) | 3.07 | 3.03 | 1.86 |
| 30-day CP (A1/P1) | 0.17 | 0.27 | 0.22 | FNMA 5.5% | 2.99 | 2.89 | 2.42 |
| 3-month LIBOR | 0.27 | 0.30 | 0.31 | FNMA ARM | 2.62 | 2.72 | 2.76 |
| Bank CDs | | | | | | | |
| 6-month | 0.29 | 0.30 | 0.25 | Corporate Bonds | | | |
| 1-year | 0.47 | 0.48 | 0.43 | Financial (10-year) A | 4.71 | 4.78 | 5.03 |
| 5-year | 1.71 | 1.60 | 1.99 | Industrial (25/30-year) A | 5.45 | 5.57 | 5.61 |
| U.S. Treasury Securities | | | | Utility (25/30-year) A | 5.57 | 5.72 | 5.76 |
| 3-month | 0.06 | 0.15 | 0.15 | Utility (25/30-year) Baa/BBB | 6.03 | 6.15 | 6.19 |
| 6-month | 0.11 | 0.18 | 0.23 | Foreign Bonds (10-Year) | | | |
| 1-year | 0.21 | 0.25 | 0.40 | Canada | 3.33 | 3.24 | 3.72 |
| 5-year | 2.12 | 1.93 | 2.49 | Germany | 3.31 | 3.11 | 3.08 |
| 10-year | 3.41 | 3.34 | 3.74 | Japan | 1.24 | 1.27 | 1.34 |
| 10-year (inflation-protected) | 0.78 | 0.93 | 1.40 | United Kingdom | 3.58 | 3.64 | 4.02 |
| 30-year | 4.47 | 4.53 | 4.62 | Preferred Stocks | | | |
| 30-year Zero | 4.79 | 4.87 | 4.87 | Utility A | 5.59 | 5.79 | 5.92 |
| | | | | Financial A | 6.45 | 6.04 | 6.59 |
| | | | | Financial Adjustable A | 5.49 | 5.49 | 5.49 |



TAX-EXEMPT

| | | | |
|--|------|------|------|
| Bond Buyer Indexes | | | |
| 20-Bond Index (GOs) | 5.06 | 5.39 | 4.43 |
| 25-Bond Index (Revs) | 5.58 | 5.60 | 4.96 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.33 | 0.39 | 0.43 |
| 1-year A | 1.18 | 1.32 | 1.16 |
| 5-year Aaa | 1.74 | 1.90 | 1.83 |
| 5-year A | 2.81 | 3.00 | 2.86 |
| 10-year Aaa | 3.37 | 3.58 | 3.22 |
| 10-year A | 4.49 | 4.54 | 4.22 |
| 25/30-year Aaa | 4.80 | 5.18 | 4.44 |
| 25/30-year A | 6.12 | 6.31 | 5.51 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 5.19 | 5.56 | 4.79 |
| Electric AA | 5.32 | 5.57 | 4.77 |
| Housing AA | 6.01 | 6.42 | 5.73 |
| Hospital AA | 5.65 | 5.73 | 5.15 |
| Toll Road Aaa | 5.33 | 5.63 | 4.76 |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 4/6/11 | 3/23/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1431443 | 1366438 | 65005 | 1207727 | 1094946 | 1064070 |
| Borrowed Reserves | 19196 | 19926 | -730 | 24841 | 36026 | 51802 |
| Net Free/Borrowed Reserves | 1412247 | 1346512 | 65735 | 1182886 | 1058920 | 1012268 |

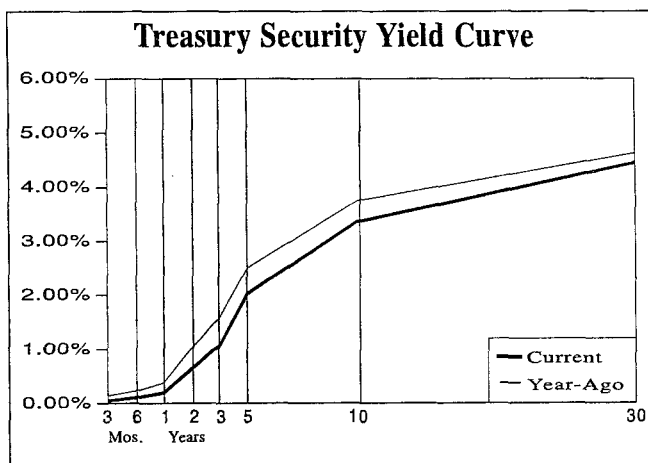
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 4/4/11 | 3/28/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1904.9 | 1903.8 | 1.1 | 17.1% | 13.8% | 13.2% |
| M2 (M1+savings+small time deposits) | 8923.7 | 8897.5 | 26.2 | 5.4% | 4.4% | 4.7% |

Selected Yields

| | Recent (4/27/11) | 3 Months Ago (1/26/11) | Year Ago (4/28/10) | | Recent (4/27/11) | 3 Months Ago (1/26/11) | Year Ago (4/28/10) |
|-----------------------------------|---------------------|------------------------------|--------------------------|--|---------------------|------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.24 | 0.27 | 0.22 | | | | |
| 3-month LIBOR | 0.27 | 0.30 | 0.34 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.28 | 0.31 | 0.25 | | | | |
| 1-year | 0.46 | 0.49 | 0.43 | | | | |
| 5-year | 1.71 | 1.65 | 1.99 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.05 | 0.15 | 0.15 | | | | |
| 6-month | 0.11 | 0.17 | 0.23 | | | | |
| 1-year | 0.20 | 0.26 | 0.38 | | | | |
| 5-year | 2.02 | 1.99 | 2.50 | | | | |
| 10-year | 3.36 | 3.42 | 3.76 | | | | |
| 10-year (inflation-protected) | 0.77 | 1.03 | 1.37 | | | | |
| 30-year | 4.45 | 4.59 | 4.63 | | | | |
| 30-year Zero | 4.79 | 4.93 | 4.89 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 5.5% | 2.72 | 2.90 | 2.25 | | | | |
| FHLMC 5.5% (Gold) | 2.94 | 3.19 | 1.88 | | | | |
| FNMA 5.5% | 2.87 | 3.06 | 2.41 | | | | |
| FNMA ARM | 2.62 | 2.72 | 2.76 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.68 | 4.73 | 4.99 | | | | |
| Industrial (25/30-year) A | 5.40 | 5.52 | 5.66 | | | | |
| Utility (25/30-year) A | 5.53 | 5.64 | 5.77 | | | | |
| Utility (25/30-year) Baa/BBB | 5.95 | 6.10 | 6.23 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.27 | 3.31 | 3.67 | | | | |
| Germany | 3.29 | 3.19 | 3.04 | | | | |
| Japan | 1.22 | 1.24 | 1.29 | | | | |
| United Kingdom | 3.57 | 3.69 | 3.94 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 5.65 | 5.79 | 6.21 | | | | |
| Financial A | 6.46 | 6.52 | 6.64 | | | | |
| Financial Adjustable A | 5.50 | 5.50 | 5.50 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.98 | 5.41 | 4.37 | | | | |
| 25-Bond Index (Revs) | 5.54 | 5.66 | 4.93 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.27 | 0.41 | 0.38 | | | | |
| 1-year A | 1.13 | 1.28 | 1.16 | | | | |
| 5-year Aaa | 1.66 | 1.91 | 1.79 | | | | |
| 5-year A | 2.75 | 2.96 | 2.77 | | | | |
| 10-year Aaa | 3.28 | 3.60 | 3.16 | | | | |
| 10-year A | 4.41 | 4.49 | 4.13 | | | | |
| 25/30-year Aaa | 4.75 | 5.06 | 4.44 | | | | |
| 25/30-year A | 6.07 | 6.27 | 5.51 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 5.15 | 5.46 | 4.79 | | | | |
| Electric AA | 5.28 | 5.57 | 4.77 | | | | |
| Housing AA | 5.97 | 6.44 | 5.70 | | | | |
| Hospital AA | 5.60 | 5.75 | 5.15 | | | | |
| Toll Road Aaa | 5.29 | 5.60 | 4.73 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 4/20/11 | 4/6/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1474421 | 1431443 | 42978 | 1274152 | 1131439 | 1078168 |
| Borrowed Reserves | 17930 | 19196 | -1266 | 21035 | 33743 | 49335 |
| Net Free/Borrowed Reserves | 1456491 | 1412247 | 44244 | 1253117 | 1097696 | 1028833 |

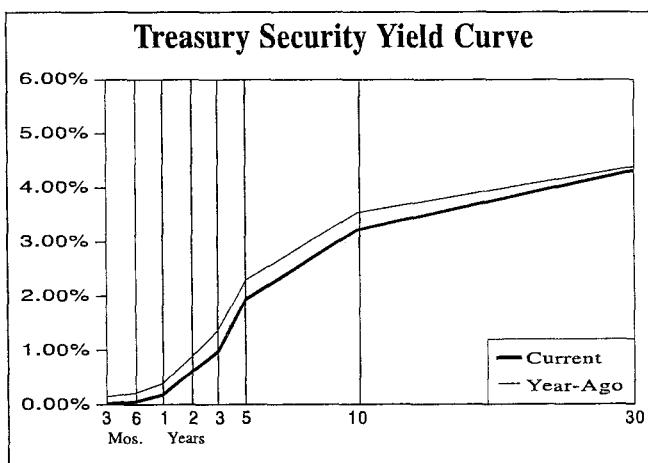
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|--------|--------|-------------------------------|--------|---------|
| | 4/11/11 | 4/4/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1883.7 | 1903.6 | -19.9 | 14.3% | 9.8% | 10.8% |
| M2 (M1+savings+small time deposits) | 8928.1 | 8922.4 | 5.7 | 5.2% | 4.3% | 4.8% |

Selected Yields

| | Recent (5/04/11) | 3 Months Ago (2/02/11) | Year Ago (5/05/10) | | Recent (5/04/11) | 3 Months Ago (2/02/11) | Year Ago (5/05/10) |
|-------------------------------|---------------------|------------------------------|--------------------------|------------------------------|---------------------|------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | Mortgage-Backed Securities | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | GNMA 5.5% | 2.56 | 3.06 | 2.45 |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | FHLMC 5.5% (Gold) | 2.90 | 3.45 | 1.96 |
| Prime Rate | 3.25 | 3.25 | 3.25 | FNMA 5.5% | 2.81 | 3.27 | 2.50 |
| 30-day CP (A1/P1) | 0.22 | 0.25 | 0.25 | FNMA ARM | 2.53 | 2.66 | 3.01 |
| 3-month LIBOR | 0.27 | 0.31 | 0.36 | Corporate Bonds | | | |
| Bank CDs | | | | Financial (10-year) A | 4.48 | 4.86 | 4.80 |
| 6-month | 0.28 | 0.30 | 0.25 | Industrial (25/30-year) A | 5.26 | 5.63 | 5.42 |
| 1-year | 0.46 | 0.48 | 0.43 | Utility (25/30-year) A | 5.39 | 5.78 | 5.59 |
| 5-year | 1.71 | 1.59 | 1.99 | Utility (25/30-year) Baa/BBB | 5.84 | 6.18 | 6.03 |
| U.S. Treasury Securities | | | | Foreign Bonds (10-Year) | | | |
| 3-month | 0.02 | 0.15 | 0.15 | Canada | 3.12 | 3.38 | 3.54 |
| 6-month | 0.06 | 0.17 | 0.21 | Germany | 3.30 | 3.26 | 2.86 |
| 1-year | 0.18 | 0.26 | 0.38 | Japan | 1.21 | 1.23 | 1.29 |
| 5-year | 1.94 | 2.09 | 2.29 | United Kingdom | 3.80 | 3.76 | 3.82 |
| 10-year | 3.22 | 3.48 | 3.54 | Preferred Stocks | | | |
| 10-year (inflation-protected) | 0.66 | 1.02 | 1.27 | Utility A | 6.06 | 5.79 | 5.59 |
| 30-year | 4.32 | 4.62 | 4.39 | Financial A | 6.47 | 6.05 | 6.68 |
| 30-year Zero | 4.66 | 4.96 | 4.62 | Financial Adjustable A | 5.51 | 5.50 | 5.51 |



TAX-EXEMPT

| Bond Buyer Indexes | | | |
|-----------------------------------|------|------|------|
| 20-Bond Index (GOs) | 4.86 | 5.25 | 4.37 |
| 25-Bond Index (Revs) | 5.51 | 5.61 | 4.91 |
| General Obligation Bonds (GOs) | | | |
| 1-year Aaa | 0.31 | 0.39 | 0.38 |
| 1-year A | 1.17 | 1.17 | 1.19 |
| 5-year Aaa | 1.57 | 1.90 | 1.80 |
| 5-year A | 2.67 | 2.82 | 2.73 |
| 10-year Aaa | 3.10 | 3.51 | 3.16 |
| 10-year A | 4.35 | 4.50 | 4.12 |
| 25/30-year Aaa | 4.58 | 4.92 | 4.42 |
| 25/30-year A | 6.04 | 6.24 | 5.51 |
| Revenue Bonds (Revs) (25/30-Year) | | | |
| Education AA | 5.07 | 5.33 | 4.74 |
| Electric AA | 5.26 | 5.48 | 4.77 |
| Housing AA | 5.95 | 6.41 | 5.65 |
| Hospital AA | 5.55 | 5.69 | 5.13 |
| Toll Road Aaa | 5.24 | 5.46 | 4.73 |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 4/20/11 | 4/6/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1474433 | 1431443 | 42990 | 1274154 | 1131440 | 1078169 |
| Borrowed Reserves | 17930 | 19196 | -1266 | 21035 | 33743 | 49335 |
| Net Free/Borrowed Reserves | 1456503 | 1412247 | 44256 | 1253120 | 1097698 | 1028833 |

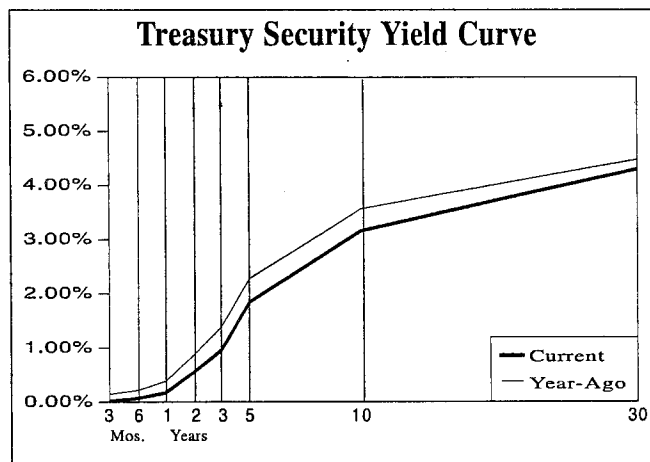
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 4/18/11 | 4/11/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1888.6 | 1883.8 | 4.8 | 8.2% | 12.3% | 10.9% |
| M2 (M1+savings+small time deposits) | 8940.6 | 8928.2 | 12.4 | 3.6% | 4.5% | 5.1% |

Selected Yields

| | Recent (5/11/11) | 3 Months Ago (2/09/11) | Year Ago (5/12/10) | | Recent (5/11/11) | 3 Months Ago (2/09/11) | Year Ago (5/12/10) |
|-----------------------------------|---------------------|------------------------------|--------------------------|--|---------------------|------------------------------|--------------------------|
| TAXABLE | | | | | | | |
| Market Rates | | | | | | | |
| Discount Rate | 0.75 | 0.75 | 0.75 | | | | |
| Federal Funds | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | | | | |
| Prime Rate | 3.25 | 3.25 | 3.25 | | | | |
| 30-day CP (A1/P1) | 0.15 | 0.31 | 0.32 | | | | |
| 3-month LIBOR | 0.26 | 0.31 | 0.43 | | | | |
| Bank CDs | | | | | | | |
| 6-month | 0.28 | 0.21 | 0.25 | | | | |
| 1-year | 0.46 | 0.29 | 0.43 | | | | |
| 5-year | 1.71 | 1.65 | 1.99 | | | | |
| U.S. Treasury Securities | | | | | | | |
| 3-month | 0.02 | 0.13 | 0.15 | | | | |
| 6-month | 0.07 | 0.16 | 0.22 | | | | |
| 1-year | 0.17 | 0.29 | 0.38 | | | | |
| 5-year | 1.85 | 2.33 | 2.28 | | | | |
| 10-year | 3.16 | 3.65 | 3.57 | | | | |
| 10-year (inflation-protected) | 0.64 | 1.20 | 1.25 | | | | |
| 30-year | 4.30 | 4.71 | 4.48 | | | | |
| 30-year Zero | 4.66 | 5.02 | 4.75 | | | | |
| Mortgage-Backed Securities | | | | | | | |
| GNMA 5.5% | 2.25 | 3.17 | 2.04 | | | | |
| FHLMC 5.5% (Gold) | 2.70 | 3.78 | 1.73 | | | | |
| FNMA 5.5% | 2.60 | 3.68 | 2.28 | | | | |
| FNMA ARM | 2.60 | 2.66 | 3.01 | | | | |
| Corporate Bonds | | | | | | | |
| Financial (10-year) A | 4.51 | 4.94 | 4.87 | | | | |
| Industrial (25/30-year) A | 5.26 | 5.67 | 5.55 | | | | |
| Utility (25/30-year) A | 5.33 | 5.82 | 5.72 | | | | |
| Utility (25/30-year) Baa/BBB | 5.78 | 6.22 | 6.10 | | | | |
| Foreign Bonds (10-Year) | | | | | | | |
| Canada | 3.22 | 3.45 | 3.60 | | | | |
| Germany | 3.13 | 3.31 | 2.94 | | | | |
| Japan | 1.13 | 1.34 | 1.31 | | | | |
| United Kingdom | 3.44 | 3.87 | 3.85 | | | | |
| Preferred Stocks | | | | | | | |
| Utility A | 6.18 | 5.80 | 6.02 | | | | |
| Financial A | 6.47 | 6.06 | 6.74 | | | | |
| Financial Adjustable A | 5.51 | 5.51 | 5.51 | | | | |



TAX-EXEMPT

| | | | | | | | |
|--|------|------|------|--|--|--|--|
| Bond Buyer Indexes | | | | | | | |
| 20-Bond Index (GOs) | 4.69 | 5.25 | 4.29 | | | | |
| 25-Bond Index (Revs) | 5.45 | 5.63 | 4.89 | | | | |
| General Obligation Bonds (GOs) | | | | | | | |
| 1-year Aaa | 0.28 | 0.39 | 0.39 | | | | |
| 1-year A | 1.15 | 1.16 | 1.19 | | | | |
| 5-year Aaa | 1.48 | 1.96 | 1.82 | | | | |
| 5-year A | 2.59 | 2.87 | 2.73 | | | | |
| 10-year Aaa | 2.96 | 3.57 | 3.16 | | | | |
| 10-year A | 4.24 | 4.54 | 4.13 | | | | |
| 25/30-year Aaa | 4.48 | 4.97 | 4.40 | | | | |
| 25/30-year A | 6.01 | 6.26 | 5.47 | | | | |
| Revenue Bonds (Revs) (25/30-Year) | | | | | | | |
| Education AA | 4.98 | 5.35 | 4.75 | | | | |
| Electric AA | 5.24 | 5.48 | 4.75 | | | | |
| Housing AA | 5.91 | 6.44 | 5.65 | | | | |
| Hospital AA | 5.45 | 5.71 | 5.09 | | | | |
| Toll Road Aaa | 5.17 | 5.48 | 4.73 | | | | |

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

| | Recent Levels | | | Average Levels Over the Last... | | |
|----------------------------|---------------|---------|--------|---------------------------------|---------|---------|
| | 5/4/11 | 4/20/11 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 1433323 | 1474433 | -41110 | 1330196 | 1163742 | 1092180 |
| Borrowed Reserves | 16908 | 17930 | -1022 | 19864 | 31461 | 47019 |
| Net Free/Borrowed Reserves | 1416415 | 1456503 | -40088 | 1310332 | 1132281 | 1045161 |

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

| | Recent Levels | | | Growth Rates Over the Last... | | |
|-------------------------------------|---------------|---------|--------|-------------------------------|--------|---------|
| | 4/25/11 | 4/18/11 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1917.0 | 1888.7 | 28.3 | 12.7% | 14.5% | 13.0% |
| M2 (M1+savings+small time deposits) | 8964.7 | 8940.7 | 24.0 | 6.3% | 4.7% | 4.9% |

GOODMAN WATER COMPANY
DOCKET NO. W-02500A-10-0382
TABLE OF CONTENTS TO SURREBUTTAL SCHEDULES WAR

| <u>SCHEDULE #</u> | |
|-------------------|--|
| WAR - 1 | COST OF CAPITAL SUMMARY |
| WAR - 2 | DCF COST OF EQUITY CAPITAL |
| WAR - 3 | DIVIDEND YIELD CALCULATION |
| WAR - 4 | DIVIDEND GROWTH RATE CALCULATION |
| WAR - 5 | DIVIDEND GROWTH COMPONENTS |
| WAR - 6 | GROWTH RATE COMPARISON |
| WAR - 7 | CAPM COST OF EQUITY CAPITAL |
| WAR - 8 | ECONOMIC INDICATORS - 1990 TO PRESENT |
| WAR - 9 | CAPITAL STRUCTURES OF SAMPLE COMPANIES |

WEIGHTED AVERAGE COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) COST RATE | (C) WEIGHTED COST RATE |
|-------------|----------------------|-------------------------|---------------------|---------------------------------|
| 1 | Long-Term Debt | 40.00% | 6.13% | 2.45% |
| 2 | Common Equity | 60.00% | 9.00% | 5.40% |
| 3 | Total Capitalization | 100.00% | | |

4 WEIGHTED AVERAGE COST OF CAPITAL

7.85%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
COLUMN (C): COLUMN (A) x COLUMN (B), LINE 4; LINE 1 + LINE 2

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
COST OF CAPITAL SUMMARY

SAMPLE COMPANIES APPROXIMATE WEIGHTED COSTS OF DEBT

| LINE NO. | STOCK SYMBOL | COMPANY | WEIGHTED COSTS |
|-------------|---|----------------------------------|---------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 7.07% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 6.24% |
| 3 | WTR | AQUA AMERICA, INC. | 5.75% |
| 4 | CTWS | CONNECTICUT WATER SERVICES, INC. | 4.95% |
| 5 | MSEX | MIDDLESEX WATER COMPANY | 5.56% |
| 6 | SJW | SJW CORP. | 6.66% |
| 7 | YORW | YORK WATER COMPANY | 6.65% |
| 8 | AVERAGE OF APPROXIMATE WEIGHTED COSTS OF DEBT (a) | | 6.13% AVERAGE OF LINES 1 THRU 8 |
| 9 | RUCO RECOMMENDED COST OF DEBT | | 6.13% |

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

NOTE:
(a) COSTS ARE APPROXIMATE AND DO NOT INCLUDE THE FOLLOWING:
DEBT ISSUES THAT DID NOT HAVE STATED YIELDS; AND
DEBT ISSUES WITH ZERO RATES OF INTEREST.
IN THE CASE OF ISSUES WITH VARIABLE RATES OF INTEREST THE HIGH END OF THE VARIABLE RANGE WAS USED.

COST OF COMMON EQUITY CALCULATION

| LINE NO. | | | | |
|-------------|---|-------|--|--|
| 1 | <u>DCF METHODOLOGY</u> | | | |
| 2 | DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 9.06% | SCHEDULE WAR-2, COLUMN (C), LINE 5 | |
| 3 | DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 9.23% | SCHEDULE WAR-2, COLUMN (C), LINE 13 | |
| 4 | AVERAGE OF DCF ESTIMATES | 9.14% | (LINE 2 + LINE 3) ÷ 2 | |
| 5 | <u>CAPM METHODOLOGY</u> | | | |
| 6 | CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE | 5.46% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5 | |
| 7 | CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE | 5.06% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13 | |
| 8 | CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE | 7.02% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5 | |
| 9 | CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE | 6.25% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13 | |
| 10 | AVERAGE OF CAPM ESTIMATES | 5.95% | (SUM OF LINES 6 THRU 9) ÷ 4 | |
| 11 | AVERAGE OF DCF AND CAPM ESTIMATES | 7.54% | (SUM OF LINES 4 AND 10) ÷ 2 | |
| 12 | FINAL COST OF COMMON EQUITY ESTIMATE | 9.00% | TESTIMONY WAR | |

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-02500A-10-0382
SURREBUTTAL SCHEDULE WAR - 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) DIVIDEND YIELD | (B) GROWTH RATE (g) | (C) DCF COST OF EQUITY CAPITAL |
|----------|--------------|----------------------------------|--------------------------|---------------------------|--------------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 3.02% | 7.23% | 10.25% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 3.35% | 6.42% | 9.77% |
| 3 | SJW | SJW CORPORATION | 3.03% | 4.63% | 7.66% |
| 4 | WTR | AQUA AMERICA, INC. | 2.78% | 5.79% | 8.57% |
| 5 | | WATER COMPANY AVERAGE | | | 9.06% |
| 6 | AGL | AGL RESOURCES, INC. | 4.52% | 5.58% | 10.10% |
| 7 | ATO | ATMOS ENERGY CORP. | 4.01% | 4.16% | 8.17% |
| 8 | LG | LACLEDE GROUP, INC. | 4.28% | 4.71% | 8.99% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 3.35% | 6.51% | 9.86% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | 3.84% | 4.09% | 7.93% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 3.67% | 3.76% | 7.43% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2.62% | 11.70% | 14.32% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | 2.75% | 5.56% | 8.30% |
| 14 | WGL | WGL HOLDINGS, INC. | 3.94% | 3.99% | 7.93% |
| 15 | | NATURAL GAS LDC AVERAGE | | | 9.23% |

REFERENCES:

COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND YIELD CALCULATION

DOCKET NO. W-02500A-10-0382
SURREBUTTAL SCHEDULE WAR - 3

| LINE NO. | STOCK SYMBOL | COMPANY | (A) ESTIMATED DIVIDEND (PER SHARE) | (B) AVERAGE STOCK PRICE (PER SHARE) | (C) DIVIDEND YIELD |
|----------|--------------|----------------------------------|---|--|--------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | \$1.04 / | \$34.44 = | 3.02% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | \$1.23 / | \$36.75 = | 3.35% |
| 3 | SJW | SJW CORPORATION | \$0.69 / | \$22.82 = | 3.03% |
| 4 | WTR | AQUA AMERICA, INC. | \$0.62 / | \$22.32 | 2.78% |
| 5 | | WATER COMPANY AVERAGE | | | 3.04% |
| 6 | AGL | AGL RESOURCES, INC. | \$1.80 / | \$39.78 = | 4.52% |
| 7 | ATO | ATMOS ENERGY CORP. | \$1.36 / | \$33.93 = | 4.01% |
| 8 | LG | LACLEDE GROUP, INC. | \$1.62 / | \$37.87 = | 4.28% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | \$1.44 / | \$42.99 = | 3.35% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | \$1.74 / | \$45.29 = | 3.84% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | \$1.12 / | \$30.51 = | 3.67% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | \$1.46 / | \$55.78 = | 2.62% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | \$1.06 / | \$38.59 = | 2.75% |
| 14 | WGL | WGL HOLDINGS, INC. | \$1.51 / | \$38.35 = | 3.94% |
| 15 | | NATURAL GAS LDC AVERAGE | | | 3.66% |

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/22/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF ADJUSTED CLOSING PRICES FROM 03/21/2011 TO 05/13/2011
STOCK QUOTES OBTAINED THROUGH YAHOO! FINANCE WEB SITE - HISTORICAL QUOTES (<http://finance.yahoo.com>).
COLUMN (C): COLUMN (A) DIVIDED BY COLUMN (B)

NOTE:

CLOSING STOCK PRICES ARE ADJUSTED FOR DIVIDENDS AND STOCK SPLITS.

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02500A-10-0382
SURREBUTTAL SCHEDULE WAR - 4
PAGE 1 OF 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) INTERNAL GROWTH (br) | + | (B) EXTERNAL GROWTH (sv) | = | (C) DIVIDEND GROWTH (g) |
|----------|--------------|----------------------------------|-----------------------------------|---|-----------------------------------|---|----------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 6.25% | + | 0.98% | = | 7.23% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 3.75% | + | 2.67% | = | 6.42% |
| 3 | SJW | SJW CORPORATION | 2.50% | + | 2.13% | = | 4.63% |
| 4 | WTR | AQUA AMERICA, INC. | 5.25% | + | 0.54% | = | 5.79% |
| 5 | | WATER COMPANY AVERAGE | | | | | 6.02% |
| 6 | AGL | AGL RESOURCES, INC. | 5.50% | + | 0.08% | = | 5.58% |
| 7 | ATO | ATMOS ENERGY CORP. | 3.75% | + | 0.41% | = | 4.16% |
| 8 | LG | LACLEDE GROUP, INC. | 4.00% | + | 0.71% | = | 4.71% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 6.50% | + | 0.01% | = | 6.51% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | 4.00% | + | 0.09% | = | 4.09% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 3.75% | + | 0.01% | = | 3.76% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 8.50% | + | 3.20% | = | 11.70% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | 5.00% | + | 0.56% | = | 5.56% |
| 14 | WGL | WGL HOLDINGS, INC. | 3.75% | + | 0.24% | = | 3.99% |
| 15 | | NATURAL GAS LDC AVERAGE | | | | | 5.56% |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02500A-10-0382
SURREBUTTAL SCHEDULE WAR - 4
PAGE 2 OF 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) SHARE GROWTH | (B) $x \{ [((M + B) + 1) / 2] - 1 \}$ | (C) EXTERNAL GROWTH (sv) = |
|----------|-------------------------|----------------------------------|---------------------|--|----------------------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 3.00% | $x \{ [((1.66) + 1) / 2] - 1 \}$ | = 0.98% |
| 2 | CWT | CALIFORNIA WATER SERVICE GROUP | 7.00% | $x \{ [((1.76) + 1) / 2] - 1 \}$ | = 2.67% |
| 3 | SJW | SJW CORPORATION | 8.00% | $x \{ [((1.53) + 1) / 2] - 1 \}$ | = 2.13% |
| 4 | WTR | AQUA AMERICA, INC. | 0.70% | $x \{ [((2.55) + 1) / 2] - 1 \}$ | = 0.54% |
| 5 | WATER COMPANY AVERAGE | | | | 1.58% |
| 6 | AGL | AGL RESOURCES, INC. | 0.25% | $x \{ [((1.61) + 1) / 2] - 1 \}$ | = 0.08% |
| 7 | ATO | ATMOS ENERGY CORP. | 2.75% | $x \{ [((1.30) + 1) / 2] - 1 \}$ | = 0.41% |
| 8 | LG | LACLEDE GROUP, INC. | 2.75% | $x \{ [((1.52) + 1) / 2] - 1 \}$ | = 0.71% |
| 9 | NJR | NEW JERSEY RESOURCES CORPORATION | 0.01% | $x \{ [((2.31) + 1) / 2] - 1 \}$ | = 0.01% |
| 10 | NWN | NORTHWEST NATURAL GAS CO. | 0.25% | $x \{ [((1.68) + 1) / 2] - 1 \}$ | = 0.09% |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 0.01% | $x \{ [((2.24) + 1) / 2] - 1 \}$ | = 0.01% |
| 12 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 3.50% | $x \{ [((2.83) + 1) / 2] - 1 \}$ | = 3.20% |
| 13 | SWX | SOUTHWEST GAS CORPORATION | 2.25% | $x \{ [((1.50) + 1) / 2] - 1 \}$ | = 0.56% |
| 14 | WGL | WGL HOLDINGS, INC. | 0.75% | $x \{ [((1.63) + 1) / 2] - 1 \}$ | = 0.24% |
| 15 | NATURAL GAS LDC AVERAGE | | | | 0.59% |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 04/22/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH COMPONENTS

| LINE NO. | STOCK SYMBOL | WATER COMPANY NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (r) | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|--------------------------------|--------------------|----------------------------|----------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1 | AWR | AMERICAN STATES WATER CO. | 2006 | 0.3158 | 8.10% | 2.56% | 16.64 | 77.70 | |
| 2 | | | 2007 | 0.4074 | 9.30% | 3.79% | 17.53 | 76.40 | |
| 3 | | | 2008 | 0.3548 | 8.60% | 3.05% | 17.95 | 76.90 | |
| 4 | | | 2009 | 0.3765 | 8.20% | 3.09% | 19.39 | 77.54 | |
| 5 | | | 2010 | 0.5378 | 11.30% | 6.08% | 20.26 | 78.00 | 2.24% |
| 6 | | | GROWTH 2006 - 2010 | | | 3.71% | 5.00% | | 3.33% |
| 7 | | | 2011 | 0.4857 | 11.00% | 5.34% | | 78.20 | 2.31% |
| 8 | | | 2012 | 0.4909 | 11.00% | 5.40% | | 78.40 | |
| 9 | | | 2014-16 | 0.5192 | 12.50% | 6.49% | 3.00% | 79.00 | 1.43% |
| 10 | | | | | | | | | |
| 11 | CWT | CALIFORNIA WATER SERVICE GROUP | 2006 | 0.1418 | 6.80% | 0.96% | 18.15 | 81.74 | |
| 12 | | | 2007 | 0.2267 | 8.10% | 1.84% | 18.50 | 89.33 | |
| 13 | | | 2008 | 0.3842 | 9.90% | 3.80% | 19.44 | 90.81 | |
| 14 | | | 2009 | 0.3949 | 9.60% | 3.79% | 20.26 | 92.55 | |
| 15 | | | 2010 | 0.3425 | 8.60% | 2.95% | 20.91 | 90.16 | 0.21% |
| 16 | | | GROWTH 2006 - 2010 | | | 2.67% | 5.50% | | 10.42% |
| 17 | | | 2011 | 0.3850 | 10.00% | 3.85% | | 91.00 | 9.55% |
| 18 | | | 2012 | 0.4093 | 9.00% | 3.68% | | 92.00 | 5.33% |
| 19 | | | 2014-16 | 0.4128 | 10.00% | 4.13% | 2.50% | 105.00 | |
| 20 | | | | | | | | | |
| 21 | SJW | SJW CORPORATION | 2006 | 0.5210 | 9.70% | 5.05% | 12.48 | 21.36 | |
| 22 | | | 2007 | 0.4135 | 8.20% | 3.39% | 12.90 | 21.65 | |
| 23 | | | 2008 | 0.3981 | 8.00% | 3.19% | 13.99 | 21.99 | |
| 24 | | | 2009 | 0.1852 | 6.00% | 1.11% | 13.66 | 22.17 | |
| 25 | | | 2010 | 0.1905 | 6.10% | 1.16% | 13.75 | 22.29 | 0.37% |
| 26 | | | GROWTH 2006 - 2010 | | | 2.78% | 6.50% | | 10.51% |
| 27 | | | 2011 | 0.2333 | 6.00% | 1.40% | | 22.50 | 8.90% |
| 28 | | | 2012 | 0.2600 | 6.50% | 1.69% | | 23.00 | 6.15% |
| 29 | | | 2014-16 | 0.3692 | 7.50% | 2.77% | 3.50% | 26.00 | |
| 30 | | | | | | | | | |
| 31 | WTR | AQUA AMERICA, INC. | 2006 | 0.3714 | 10.00% | 3.71% | 6.96 | 41.44 | |
| 32 | | | 2007 | 0.3239 | 9.70% | 3.14% | 7.32 | 41.61 | |
| 33 | | | 2008 | 0.3014 | 9.30% | 2.80% | 7.82 | 42.06 | |
| 34 | | | 2009 | 0.2857 | 9.40% | 2.69% | 8.12 | 41.59 | |
| 35 | | | 2010 | 0.3444 | 10.60% | 3.65% | 8.51 | 41.36 | 1.05% |
| 36 | | | GROWTH 2006 - 2010 | | | 3.20% | 7.00% | | 0.67% |
| 37 | | | 2011 | 0.3368 | 11.00% | 3.71% | | 41.00 | 0.70% |
| 38 | | | 2012 | 0.3619 | 11.50% | 4.16% | | 40.00 | |
| 39 | | | 2014-16 | 0.4148 | 13.00% | 5.39% | 5.00% | 40.00 | 0.70% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 04/22/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010
COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH COMPONENTS

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (c) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|----------------------------------|--------------------|----------------------------|------------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1 | AGL | AGL RESOURCES, INC. | 2006 | 0.4559 | 13.20% | 6.02% | 20.71 | 77.70 | |
| 2 | | | 2007 | 0.3971 | 12.70% | 5.04% | 21.74 | 76.40 | |
| 3 | | | 2008 | 0.3801 | 12.60% | 4.79% | 21.48 | 76.90 | |
| 4 | | | 2009 | 0.4028 | 12.50% | 5.03% | 22.95 | 77.54 | |
| 5 | | | 2010 | 0.4133 | 12.90% | 5.33% | 23.24 | 78.00 | |
| 6 | | | GROWTH 2006 - 2010 | | | 5.24% | 5.50% | | 0.10% |
| 7 | | | 2011 | 0.4286 | 12.50% | 5.36% | | 78.20 | 0.26% |
| 8 | | | 2012 | 0.4424 | 12.50% | 5.53% | | 78.40 | 0.26% |
| 9 | | | 2014-16 | 0.4773 | 12.50% | 5.97% | | 79.00 | 0.26% |
| 10 | ATO | ATMOS ENERGY CORP. | 2006 | 0.3700 | 9.80% | 3.63% | 20.16 | 81.74 | |
| 11 | | | 2007 | 0.3402 | 8.70% | 2.96% | 22.01 | 89.33 | |
| 12 | | | 2008 | 0.3500 | 8.80% | 3.06% | 22.60 | 90.81 | |
| 13 | | | 2009 | 0.3299 | 8.30% | 2.74% | 23.52 | 92.55 | |
| 14 | | | 2010 | 0.3796 | 9.20% | 3.49% | 24.16 | 90.16 | |
| 15 | | | GROWTH 2006 - 2010 | | | 3.18% | 5.00% | | 2.48% |
| 16 | | | 2011 | 0.4087 | 9.00% | 3.68% | | 91.00 | 0.93% |
| 17 | | | 2012 | 0.4250 | 8.50% | 3.61% | | 92.00 | 1.02% |
| 18 | | | 2014-16 | 0.4630 | 9.00% | 4.17% | | 105.00 | 3.09% |
| 19 | | | | | | | | | |
| 20 | LG | LACLEDE GROUP, INC. | 2006 | 0.4093 | 12.50% | 5.12% | 18.85 | 21.36 | |
| 21 | | | 2007 | 0.3723 | 11.60% | 4.32% | 19.79 | 21.65 | |
| 22 | | | 2008 | 0.4356 | 11.80% | 5.14% | 22.12 | 21.99 | |
| 23 | | | 2009 | 0.4760 | 12.40% | 5.90% | 23.32 | 22.17 | |
| 24 | | | 2010 | 0.3539 | 10.10% | 3.57% | 24.02 | 22.29 | |
| 25 | | | GROWTH 2006 - 2010 | | | 4.81% | 7.00% | | 1.07% |
| 26 | | | 2011 | 0.3686 | 10.50% | 3.87% | | 22.50 | 0.94% |
| 27 | | | 2012 | 0.3774 | 10.50% | 3.96% | | 23.00 | 1.58% |
| 28 | | | 2014-16 | 0.4286 | 10.00% | 4.29% | | 26.00 | 3.13% |
| 29 | | | | | | | | | |
| 30 | NJR | NEW JERSEY RESOURCES CORPORATION | 2006 | 0.4866 | 12.60% | 6.13% | 15.00 | 41.44 | |
| 31 | | | 2007 | 0.3484 | 10.10% | 3.52% | 15.50 | 41.61 | |
| 32 | | | 2008 | 0.5889 | 15.70% | 9.25% | 17.28 | 42.06 | |
| 33 | | | 2009 | 0.4833 | 14.60% | 7.06% | 16.59 | 41.59 | |
| 34 | | | 2010 | 0.4472 | 14.10% | 6.30% | 17.53 | 41.36 | |
| 35 | | | GROWTH 2006 - 2010 | | | 6.45% | 10.00% | | -0.05% |
| 36 | | | 2011 | 0.4566 | 14.50% | 6.62% | | 41.00 | -0.87% |
| 37 | | | 2012 | 0.4807 | 15.00% | 7.21% | | 40.00 | -1.66% |
| 38 | | | 2014-16 | 0.4921 | 13.50% | 6.64% | | 40.00 | -0.67% |
| 39 | | | | | | | | | |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/11/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36; SIMPLE AVERAGE GROWTH, 2006 - 2010
COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36; COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-02500A-10-0382
SURREBUTTAL SCHEDULE WAR - 5
PAGE 3 OF 4

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (c) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE - (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|-------------------------------|--------------------|-------------------------------|---------------------------------------|-------------------------------|-----------------------------------|------------------------------------|------------------------|
| 1 | NVN | NORTHWEST NATURAL GAS CO. | 2006 | 0.4085 | 10.90% | 4.45% | 22.01 | 27.24 | |
| 2 | | | 2007 | 0.4783 | 12.50% | 5.98% | 22.52 | 26.41 | |
| 3 | | | 2008 | 0.4086 | 10.90% | 4.45% | 23.71 | 26.50 | |
| 4 | | | 2009 | 0.4346 | 11.40% | 4.95% | 24.88 | 26.53 | |
| 5 | | | 2010 | 0.3846 | 10.50% | 4.04% | 25.95 | 26.67 | |
| 6 | | | GROWTH 2006 - 2010 | | | 4.78% | 4.00% | | -0.53% |
| 7 | | | 2011 | 0.3857 | 10.50% | 4.05% | | 26.75 | 0.30% |
| 8 | | | 2012 | 0.3931 | 10.50% | 4.13% | | 26.80 | 0.24% |
| 9 | | | 2014-16 | 0.4125 | 10.00% | 4.13% | 4.00% | 26.95 | 0.21% |
| 10 | | | | | | | | | |
| 11 | PNY | PIEDMONT NATURAL GAS COMPANY | 2006 | 0.2578 | 11.00% | 2.84% | 11.83 | 74.61 | |
| 12 | | | 2007 | 0.2929 | 11.90% | 3.49% | 11.99 | 73.23 | |
| 13 | | | 2008 | 0.3087 | 12.40% | 3.83% | 12.11 | 73.26 | |
| 14 | | | 2009 | 0.3593 | 13.20% | 4.74% | 12.67 | 73.27 | |
| 15 | | | 2010 | 0.2839 | 11.60% | 3.29% | 13.35 | 72.28 | |
| 16 | | | GROWTH 2006 - 2010 | | | 3.64% | 3.50% | | -0.79% |
| 17 | | | 2011 | 0.2813 | 12.00% | 3.38% | | 71.50 | -1.08% |
| 18 | | | 2012 | 0.3000 | 12.00% | 3.60% | | 71.00 | -0.89% |
| 19 | | | 2014-16 | 0.3105 | 12.50% | 3.88% | 3.00% | 69.00 | -0.92% |
| 20 | | | | | | | | | |
| 21 | SJI | SOUTH JERSEY INDUSTRIES, INC. | 2006 | 0.6260 | 16.30% | 10.20% | 15.11 | 29.33 | |
| 22 | | | 2007 | 0.5167 | 12.80% | 6.61% | 16.25 | 29.61 | |
| 23 | | | 2008 | 0.5110 | 13.10% | 6.69% | 17.33 | 29.73 | |
| 24 | | | 2009 | 0.4874 | 13.10% | 6.38% | 18.27 | 29.80 | |
| 25 | | | 2010 | 0.4963 | 14.20% | 7.05% | 19.08 | 29.87 | |
| 26 | | | GROWTH 2006 - 2010 | | | 7.39% | 9.00% | | 0.46% |
| 27 | | | 2011 | 0.4983 | 15.00% | 7.47% | | 31.00 | 3.78% |
| 28 | | | 2012 | 0.5077 | 16.50% | 8.38% | | 32.00 | 3.50% |
| 29 | | | 2014-16 | 0.5122 | 17.50% | 8.96% | 4.50% | 34.00 | 2.62% |
| 30 | | | | | | | | | |
| 31 | SWX | SOUTHWEST GAS CORPORATION | 2006 | 0.5859 | 8.90% | 5.21% | 21.58 | 41.77 | |
| 32 | | | 2007 | 0.5590 | 8.50% | 4.75% | 22.98 | 42.81 | |
| 33 | | | 2008 | 0.3525 | 5.90% | 2.08% | 23.49 | 44.19 | |
| 34 | | | 2009 | 0.5103 | 7.90% | 4.03% | 24.44 | 45.09 | |
| 35 | | | 2010 | 0.5595 | 8.90% | 4.98% | 25.59 | 45.60 | |
| 36 | | | GROWTH 2006 - 2010 | | | 4.21% | 5.00% | | 2.22% |
| 37 | | | 2011 | 0.5435 | 9.00% | 4.89% | | 46.50 | 1.97% |
| 38 | | | 2012 | 0.5510 | 9.00% | 4.96% | | 48.00 | 2.60% |
| 39 | | | 2014-16 | 0.5690 | 9.00% | 5.12% | 4.50% | 50.00 | 1.86% |

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY

- RATINGS & REPORTS DATED 03/11/2011

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

| LINE NO. | STOCK SYMBOL | NATURAL GAS LDC NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | (B) RETURN ON BOOK EQUITY (c) = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE (\$/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|----------|--------------|----------------------|--------------------|----------------------------|------------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1 | WGL | WGL HOLDINGS, INC. | 2006 | 0.3041 | 10.30% | 3.13% | 18.86 | 48.89 | |
| 2 | | | 2007 | 0.3445 | 10.30% | 3.55% | 19.83 | 49.45 | |
| 3 | | | 2008 | 0.4221 | 11.60% | 4.90% | 20.99 | 49.92 | |
| 4 | | | 2009 | 0.4190 | 11.60% | 4.86% | 21.89 | 50.14 | |
| 5 | | | 2010 | 0.3392 | 9.90% | 3.36% | 22.82 | 50.54 | |
| 6 | | | GROWTH 2006 - 2010 | | | 3.96% | 5.00% | | 0.83% |
| 7 | | | 2011 | 0.2714 | 9.00% | 2.44% | | 51.00 | 0.91% |
| 8 | | | 2012 | 0.3319 | 9.50% | 3.15% | | 51.00 | 0.45% |
| 9 | | | 2014-16 | 0.3778 | 10.00% | 3.78% | 4.00% | 52.00 | 0.57% |

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 03/11/2011
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINE 6, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINE 6, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
GROWTH RATE COMPARISON

WATER COMPANY SAMPLE:

| LINE NO. | STOCK SYMBOL | (A) | | (B) | | (C) | | (D) | | (E) | | (F) | |
|----------|--------------|-------------------|--|--------|--|-------|--|--------|--|------------|--|--------|--|
| | | ZACKS (br) + (sv) | | EPS | | DPS | | EPS | | ZACKS AVGS | | DPS | |
| 1 | AWR | 7.23% | | 11.00% | | 3.50% | | 8.50% | | 5.00% | | 14.05% | |
| 2 | CWT | 6.42% | | - | | 2.50% | | 6.50% | | 5.50% | | 7.81% | |
| 3 | SJW | 4.63% | | - | | 4.00% | | -1.50% | | 6.50% | | -8.34% | |
| 4 | WTR | 5.79% | | 6.50% | | 6.00% | | 4.50% | | 7.00% | | 6.48% | |
| 5 | | | | | | 4.00% | | 4.50% | | 6.00% | | 5.00% | |
| 6 | AVERAGES | 6.02% | | 8.75% | | 5.00% | | 4.92% | | 5.16% | | 4.39% | |

NATURAL GAS LDC SAMPLE:

| LINE NO. | STOCK SYMBOL | (A) | | (B) | | (C) | | (D) | | (E) | | (F) | |
|----------|--------------|-------------------|--|-------|--|-------|--|--------|--|------------|--|--------|--|
| | | ZACKS (br) + (sv) | | EPS | | DPS | | EPS | | ZACKS AVGS | | DPS | |
| 1 | AGL | 5.58% | | 4.00% | | 2.00% | | 4.50% | | 5.50% | | 2.48% | |
| 2 | ATO | 4.16% | | 4.50% | | 2.00% | | 4.00% | | 5.00% | | 1.94% | |
| 3 | LG | 4.71% | | 3.00% | | 2.50% | | 7.50% | | 7.00% | | 0.63% | |
| 4 | NJR | 6.51% | | 4.00% | | 4.50% | | 8.50% | | 10.00% | | 7.10% | |
| 5 | NWN | 4.09% | | 4.60% | | 4.00% | | 9.50% | | 4.00% | | 3.82% | |
| 6 | PNY | 3.76% | | 4.80% | | 3.50% | | 5.00% | | 3.50% | | 4.90% | |
| 7 | SJI | 11.70% | | 6.50% | | 8.50% | | 10.00% | | 9.00% | | 10.27% | |
| 8 | SWX | 5.56% | | 6.00% | | 4.50% | | 6.00% | | 5.00% | | 5.09% | |
| 9 | WGL | 3.99% | | 5.30% | | 2.50% | | 2.50% | | 5.00% | | 4.01% | |
| 10 | | | | | | 3.78% | | 6.39% | | 6.00% | | 3.41% | |
| 11 | AVERAGES | 5.56% | | 4.74% | | 4.28% | | 5.57% | | 4.90% | | 4.29% | |

REFERENCES:

COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/22/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/22/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 9 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/22/2011 (WATER COMPANIES) AND 03/11/2011 (NATURAL GAS LDC's)

BASED ON A GEOMETRIC MEAN:

| LINE NO. | STOCK SYMBOL | (A) | | | | | (B) EXPECTED RETURN |
|----------|-------------------------|-----|---|----------------|---|---|---------------------------|
| | | k | = | r _f | + | [β x (r _m - r _f)] | = |
| 1 | AWR | k | = | 2.08% | + | [0.75 x (9.90% - 5.40%)] | = 5.46% |
| 2 | CWT | k | = | 2.08% | + | [0.70 x (9.90% - 5.40%)] | = 5.23% |
| 3 | SJW | k | = | 2.08% | + | [0.90 x (9.90% - 5.40%)] | = 6.13% |
| 4 | WTR | k | = | 2.08% | + | [0.65 x (9.90% - 5.40%)] | = 5.01% |
| 5 | WATER COMPANY AVERAGE | | | | | <u>0.75</u> | <u>5.46%</u> |
| 6 | AGL | k | = | 2.08% | + | [0.75 x (9.90% - 5.40%)] | = 5.46% |
| 7 | ATO | k | = | 2.08% | + | [0.65 x (9.90% - 5.40%)] | = 5.01% |
| 8 | LG | k | = | 2.08% | + | [0.60 x (9.90% - 5.40%)] | = 4.78% |
| 9 | NJR | k | = | 2.08% | + | [0.65 x (9.90% - 5.40%)] | = 5.01% |
| 10 | NWN | k | = | 2.08% | + | [0.60 x (9.90% - 5.40%)] | = 4.78% |
| 11 | PNY | k | = | 2.08% | + | [0.65 x (9.90% - 5.40%)] | = 5.01% |
| 12 | SJI | k | = | 2.08% | + | [0.65 x (9.90% - 5.40%)] | = 5.01% |
| 13 | SWX | k | = | 2.08% | + | [0.75 x (9.90% - 5.40%)] | = 5.46% |
| 14 | WGL | k | = | 2.08% | + | [0.65 x (9.90% - 5.40%)] | = 5.01% |
| 15 | NATURAL GAS LDC AVERAGE | | | | | <u>0.66</u> | <u>5.06%</u> |

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/01/2011 THROUGH 05/20/2011 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2010 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2011 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

| LINE NO. | STOCK SYMBOL | (A) | | | | | (B) EXPECTED RETURN |
|----------|-------------------------|-----|---|----------------|---|---|------------------------|
| | | k | = | r _f | + | [β x (r _m - r _f)] | = |
| 1 | AWR | k | = | 2.08% | + | [0.75 x (11.90% - 5.50%)] | = 6.88% |
| 2 | CWT | k | = | 2.08% | + | [0.70 x (11.90% - 5.50%)] | = 6.56% |
| 3 | SIW | k | = | 2.08% | + | [0.90 x (11.90% - 5.50%)] | = 7.84% |
| 4 | WTR | k | = | 2.08% | + | [0.65 x (11.90% - 5.50%)] | = 6.24% |
| 5 | WATER COMPANY AVERAGE | | | | | <u>0.75</u> | <u>6.88%</u> |
| 6 | AGL | k | = | 2.08% | + | [0.75 x (11.90% - 5.50%)] | = 6.88% |
| 7 | ATO | k | = | 2.08% | + | [0.65 x (11.90% - 5.50%)] | = 6.24% |
| 8 | LG | k | = | 2.08% | + | [0.60 x (11.90% - 5.50%)] | = 5.92% |
| 9 | NJR | k | = | 2.08% | + | [0.65 x (11.90% - 5.50%)] | = 6.24% |
| 10 | NWN | k | = | 2.08% | + | [0.60 x (11.90% - 5.50%)] | = 5.92% |
| 11 | PNY | k | = | 2.08% | + | [0.65 x (11.90% - 5.50%)] | = 6.24% |
| 12 | SJI | k | = | 2.08% | + | [0.65 x (11.90% - 5.50%)] | = 6.24% |
| 13 | SWX | k | = | 2.08% | + | [0.75 x (11.90% - 5.50%)] | = 6.88% |
| 14 | WGL | k | = | 2.08% | + | [0.65 x (11.90% - 5.50%)] | = 6.24% |
| 15 | NATURAL GAS LDC AVERAGE | | | | | <u>0.66</u> | <u>6.31%</u> |

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/01/2011 THROUGH 05/20/2011 WAS USED AS A RISK FREE RATE OF RETURN.

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-02500A-10-0382
SURREBUTTAL SCHEDULE WAR - 8

| LINE NO. | YEAR | (A) CHANGE IN CPI | (B) CHANGE IN GDP (1996 \$) | (C) PRIME RATE | (D) FED. DISC. RATE | (E) FED. FUNDS RATE | (F) 91-DAY T-BILLS | (G) 30-YR T-BONDS | (H) A-RATED UTIL. BOND YIELD | (I) Baa-RATED UTIL. BOND YIELD |
|----------|---------|-------------------------|--------------------------------------|----------------------|------------------------------|------------------------------|--------------------------|-------------------------|---------------------------------------|---|
| 1 | 1990 | 5.39% | 1.90% | 10.01% | 6.98% | 8.10% | 7.50% | 7.49% | 9.86% | 10.06% |
| 2 | 1991 | 4.25% | -0.20% | 8.46% | 5.45% | 5.69% | 5.38% | 5.38% | 9.36% | 9.55% |
| 3 | 1992 | 3.03% | 3.30% | 6.25% | 3.25% | 3.52% | 3.43% | 3.43% | 8.69% | 8.86% |
| 4 | 1993 | 2.96% | 2.70% | 6.00% | 3.00% | 3.02% | 3.00% | 3.00% | 7.59% | 7.91% |
| 5 | 1994 | 2.61% | 4.00% | 7.14% | 3.80% | 4.21% | 4.25% | 4.25% | 8.31% | 8.63% |
| 6 | 1995 | 2.81% | 2.50% | 8.83% | 5.21% | 5.83% | 5.49% | 5.49% | 7.89% | 8.29% |
| 7 | 1996 | 2.93% | 3.70% | 8.27% | 5.02% | 5.30% | 5.01% | 5.01% | 7.75% | 8.17% |
| 8 | 1997 | 2.34% | 4.50% | 8.44% | 5.00% | 5.46% | 5.06% | 5.06% | 7.60% | 8.12% |
| 9 | 1998 | 1.55% | 4.20% | 8.35% | 4.92% | 5.35% | 4.78% | 4.78% | 7.04% | 7.27% |
| 10 | 1999 | 2.19% | 4.50% | 7.99% | 4.62% | 4.97% | 4.64% | 4.64% | 7.62% | 7.88% |
| 11 | 2000 | 3.38% | 3.70% | 9.23% | 5.73% | 6.24% | 5.82% | 5.82% | 8.24% | 8.36% |
| 12 | 2001 | 2.83% | 0.80% | 6.92% | 3.41% | 3.88% | 3.40% | 5.95% | 7.59% | 8.02% |
| 13 | 2002 | 1.59% | 1.60% | 4.67% | 1.17% | 1.67% | 1.61% | 5.38% | 7.41% | 7.98% |
| 14 | 2003 | 2.27% | 2.50% | 4.12% | 2.03% | 1.13% | 1.01% | 4.92% | 6.18% | 6.64% |
| 15 | 2004 | 2.68% | 3.60% | 4.34% | 2.34% | 1.35% | 1.37% | 5.03% | 5.77% | 6.20% |
| 16 | 2005 | 3.39% | 2.90% | 6.16% | 4.19% | 3.22% | 3.15% | 4.57% | 5.38% | 5.78% |
| 17 | 2006 | 3.24% | 2.80% | 7.97% | 5.96% | 4.97% | 4.73% | 4.91% | 5.94% | 6.30% |
| 18 | 2007 | 2.85% | 2.90% | 8.05% | 5.86% | 5.02% | 4.36% | 4.84% | 6.07% | 6.24% |
| 19 | 2008 | 3.84% | -6.80% | 5.09% | 2.39% | 1.92% | 1.37% | 4.28% | 6.34% | 6.64% |
| 20 | 2009 | -0.36% | 5.00% | 3.25% | 0.50% | 0.00% - 0.25% | 0.15% | 4.08% | 5.84% | 6.87% |
| 21 | 2010 | 1.64% | 2.80% | 3.25% | 0.72% | 0.00% - 0.25% | 0.13% | 4.25% | 5.50% | 5.98% |
| 22 | CURRENT | 3.20% | 1.80% | 3.25% | 0.75% | 0.00% - 0.25% | 0.02% | 4.66% | 5.33% | 5.78% |

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 05/20/2011
COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MORGENTHAU PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003, MORGENTHAU NEWS REPORTS

GOODMAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2009
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. W-02500A-10-0382
SURREBUTTAL SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

| LINE NO. | AWR | PCT. | CWT | PCT. | WTR | PCT. | WATER COMPANY AVERAGE | PCT. |
|----------|-----------------|----------|-------|----------|-------|------------|-----------------------|-----------------|
| 1 | DEBT | \$ 299.8 | 44.3% | \$ 479.2 | 52.4% | \$ 1,532.0 | 56.6% | \$ 770.3 53.8% |
| 2 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0% |
| 3 | COMMON EQUITY | 377.5 | 55.7% | 435.5 | 47.6% | 1,174.3 | 43.4% | 662.4 46.2% |
| 4 | TOTALS | \$ 677.4 | 100% | \$ 914.7 | 100% | \$ 2,706.2 | 100% | \$ 1,432.8 100% |

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

| LINE NO. | AGL | PCT. | ATO | PCT. | LG | PCT. | NJR | PCT. | NWN | PCT. |
|----------|-----------------|------------|-------|------------|-------|----------|-------|------------|-------|-----------------|
| 1 | DEBT | \$ 1,673.0 | 47.7% | \$ 1,809.6 | 45.4% | \$ 364.3 | 47.0% | \$ 428.9 | 37.2% | \$ 591.7 46.1% |
| 2 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0 | 0.0% | 0.0% |
| 3 | COMMON EQUITY | 1,836.0 | 52.3% | 2,178.3 | 54.6% | 411.3 | 53.0% | 725.5 | 62.8% | 693.1 53.9% |
| 4 | TOTALS | \$ 3,509.0 | 100% | \$ 3,987.9 | 100% | \$ 775.6 | 100% | \$ 1,154.4 | 100% | \$ 1,284.8 100% |

| LINE NO. | PNY | PCT. | SJI | PCT. | SWX | PCT. | WGL | PCT. | NATURAL GAS LDC AVERAGE | PCT. |
|----------|-----------------|------------|-------|----------|-------|------------|-------|------------|-------------------------|-----------------|
| 14 | DEBT | \$ 671.9 | 41.0% | \$ 340.0 | 37.4% | \$ 1,169.4 | 49.3% | \$ 592.9 | 33.4% | \$ 849.1 43.9% |
| 15 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 100.0 | 4.2% | 28.2 | 1.6% | \$ 14.2 0.7% |
| 16 | COMMON EQUITY | 964.9 | 59.0% | 570.1 | 62.6% | 1,102.1 | 46.5% | 1,153.4 | 65.0% | 1,070.5 55.4% |
| 17 | TOTALS | \$ 1,636.9 | 100% | \$ 910.1 | 100% | \$ 2,371.4 | 100% | \$ 1,774.4 | 100% | \$ 1,933.8 100% |

| LINE NO. | WATER & LDC AVERAGE | PCT. |
|----------|---------------------|-----------------|
| 26 | DEBT | \$ 809.7 48.1% |
| 27 | PREFERRED STOCK | 7.1 0.4% |
| 28 | COMMON EQUITY | 866.5 51.5% |
| 29 | TOTALS | \$ 1,683.3 100% |

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS



GOODMAN WATER COMPANY

DOCKET NO. W-02500A-10-0382

TESTIMONY
OF
JODI A. JERICH
IN SUPPORT OF SETTLEMENT AGREEMENT

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

OCTOBER 4, 2011

1
2
3
4
5
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SETTLEMENT PROCESS 1

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RATE INCREASE/RATE STABILITY.....10

RATE IMPACT11

1 **Q. Please state your name, occupation and business address for the**
2 **record.**

3 A. My name is Jodi Jerich. I am the Director of the Arizona Residential Utility
4 Consumer Office (RUCO). My business address is 1110 W. Washington
5 Street, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Have you filed testimony previously in this docket?**

8 A. Yes. I filed surrebuttal testimony in this docket.

9
10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to explain the reasons why RUCO supports
12 the proposed Settlement Agreement.

13
14 **SETTLEMENT PROCESS**

15 **Q. Have you, in your role as RUCO Director, participated in other**
16 **settlement negotiations?**

17 A. Yes. As Director, I have participated in settlement negotiations in other
18 matters that have come before the Corporation Commission.¹ The majority
19 of these negotiations have resulted in RUCO reaching an accord with the
20 other settling parties and signing a settlement agreement. On the other
21 hand, I have walked away from settlement talks when negotiations

¹ 2008 APS Rate Case, Docket No. E-01345A-08-0172 (Decision No. 71444); 2010 Qwest/
CenturyLink Merger, Docket No. T-04190A-10-0194 (Decision No. 72232), 2010 SW Gas Rate
Case, Docket No. G-01551A-10-0458 (Pending).

1 produced a result that RUCO found was not in the best interest of
2 residential ratepayers. RUCO does not enter into settlements lightly. The
3 decision to enter settlement talks and participate in good faith does not
4 always lead to RUCO signing a settlement agreement. RUCO will not agree
5 to settle simply as a means of avoiding litigation. However, in this matter,
6 negotiations did produce a solid end product that RUCO can and does
7 support.

8
9 **Q. Was the negotiation process that resulted in the Settlement Agreement**
10 **a proper and fair process?**

11 A. Yes. The Settlement Agreement is the product of candid discussions
12 between representatives of Goodman Water Utility (Goodman), RUCO,
13 and the individual intervenors, Jim Schoemperlen and Larry Wawrzyniak.
14 All participants had an opportunity to meaningfully participate throughout
15 the negotiations. The participants were able to express their positions
16 fully.

17
18 These talks produced a well-balanced and fair result that illustrates a
19 willingness of the parties to find common ground, and to reach a
20 compromise position that provides benefits for both the residents of Eagle
21 Crest and Goodman.

1 **Q. Why is a negotiated compromise an appropriate way to resolve this**
2 **rate case?**

3 A. The Settlement Agreement brings clarity and regulatory certainty without the
4 risk of protracted litigation and appeals. Furthermore, the Settlement
5 Agreement finds middle ground between the disputing parties who
6 participated in the negotiations.

7
8 Most importantly, this settlement has the unique perspective of providing an
9 opportunity to resolve the acrimony that currently exists between the
10 community and the Company. In the absence of a settlement that finds
11 middle ground, it is likely that such hard feelings would persist.

12
13 Of course, the proposed Settlement Agreement in no way eliminates the
14 Commission's constitutional right and duty to review this matter and to make
15 its own determination whether the Settlement is truly balanced and the rates
16 are just and reasonable.

17
18 **Q. Was it appropriate to exclude Staff from settlement negotiations?**

19 A. Section 1.12 of the Settlement Agreement recites the rationale for not
20 inviting Staff to participate in the initial negotiations. RUCO recognizes that
21 Staff has put significant time and effort into creating and defending its
22 position in this rate case. RUCO understands that Staff may have preferred
23 the opportunity to participate in the construction of the Settlement

1 Agreement. Nonetheless, it is RUCO's hope that Staff will see the merit in
2 the terms of the Settlement. With all that said, Staff's ability to continue to
3 litigate its position is not affected by other parties reaching settlement.

4
5
6 **SETTLEMENT PROVISIONS**

7 **Q. Please summarize the main provisions of the Settlement Agreement.**

8 **A.** In summary, the Settlement Agreement provides as follows:

- 9 1. A \$138,000 overall revenue increase phased-in over three (3)
10 years.
11
12 2. Goodman agrees to forego all interest and foregone revenue
13 associated with the phase in of the rate increase.
14
15 3. The three (3) year phase-in is as follows:
16 • Year 1 50%
17 • Year 2 25%
18 • Year 3 25%
19
20 4. FVRB set at \$1,755,118 (RUCO's surrebuttal FVRB position).
21
22 5. Signatory Parties reach no conclusion on whether any excess
23 capacity may or may not exist at this time. Any determination of
24 excess capacity will be determined in a future rate case on the
25 basis of the existing circumstances at that time.
26
27 6. Rates are frozen for four (4) years with Goodman not filing for
28 another rate increase until at least January 1, 2015.
29
30 7. Goodman retains the right to file for interim emergency rates if
31 necessary.
32
33 8. Goodman may defer accumulated depreciation on plant not
34 included in rate base but no interest may be recovered on the
35 deferred depreciation expense.
36
37

Q. Why is the Settlement Agreement in the public interest?

A. The letters to the docket, the public comment meetings and the testimony presented at hearing for this rate case reveal the high level of discord and even anger in the Eagle Crest community over the proposed rate increase. As the case proceeded to hearing, it became clear that the disputed issues crystallized around two opposing views with a large divide of opinion between the two camps. On one side were Staff and the Company, recommending sizeable rate increases and inclusion of nearly all plant. On the other side were RUCO and the individual intervenors who proposed a nominal rate increase, or a rate decrease, and argued that almost half of the plant added since the last rate case was excess capacity and must be excluded from rate base. The Settlement resulted in a middle ground compromise with each party receiving some benefits and conceding on others.

| | Revenue Increase | % Increase | FVRB |
|---------|------------------|------------|-------------|
| Company | \$260,649 | 43.85% | \$2,298,376 |
| Staff | \$202,604 | 34.08% | \$2,077,253 |

VERSUS

| | Revenue Increase | % Increase | FVRB |
|-------------|------------------|------------|-------------|
| RUCO | \$ 8,715 | 1.47% | \$1,755,118 |
| Intervenors | (\$77,517) | (13.04%) | \$1,317,239 |

SETTLEMENT

| | Revenue Increase | % Increase | FVRB |
|------------|------------------|------------|-------------|
| Settlement | \$138,000 | 23.21% | \$1,755,118 |

1 Given the level of discord, any settlement reached between the parties
2 that can possibly ameliorate such discord, is worthy of serious
3 consideration. The present settlement, however, resolves the issues in a
4 manner that is both fair and reasonable to the Company and to its
5 ratepayers. For this reason, it is in the public interest.

6
7 **Q. In summary, what are the benefits to Goodman?**

8 **A.** From RUCO's perspective, the benefits to Goodman are as follows:

- 9 • Eliminates risks associated with RUCO's and Intervenor's claims of
10 excess capacity. RUCO and the individual intervenors waive their
11 rights to appeal should plant beyond the \$1,755,118 be added to
12 Goodman's FVRB. (Section 3.4)
- 13 • Goodman receives a 23.21% rate increase phased-in over three
14 years, totaling \$138,000. (Section 2.1)
- 15 • Goodman may defer \$269,307 of accumulated depreciation through
16 the end of the test year and defer the recording of annual
17 depreciation of \$44,136 on utility plant not included in rate base for
18 the purpose of this rate case during the "stay out" period. (Section
19 2.3)
- 20 • While the Settlement Agreement freezes rates for four years,
21 Goodman may file for emergency rates during that time period if
22 necessary.
- 23 • Improved relations with the community.

- Resolves disputed rate case issues including land valuation, excess capacity, and rate case expense thereby reducing the risk of protracted litigation costs.

Q. Is the deferral of accumulated depreciation and annual depreciations expense fair to both Goodman and ratepayers?

A. Yes. This was part of the good faith "give and take" of the negotiation process. RUCO recommended this same accounting treatment in its surrebuttal testimony prior to settlement negotiations. The Settlement Agreement adopts RUCO's recommended adjustments to the test year levels of accumulated depreciation and annual depreciation expense. The provision preserves the amount of accumulated depreciation associated with a portion of utility plant that represents possible excess capacity and allows Goodman to recover annual depreciation expense on that portion of utility plant during the four year stay out period.

Q. Will Goodman realize interest on the deferred annual depreciation expense adjustment?

A. No.

Q. Has the Commission ever approved such a deferral in the past?

A. In part. In Decision No. 70662, the Commission approved the deferral of depreciation expense on plant not placed in rate base for Gold Canyon

1 Sewer Company (Docket No. SW-02519A-06-0015). However, that
2 Decision allowed the utility to collect accrued interest. Under the terms of
3 the Settlement Agreement, Goodman may not recover interest on the
4 deferred depreciation expense. (Section 2.4)

5
6 **Q. What are the benefits to the ratepayers?**

7 **A.** From RUCO's perspective, the benefits to Goodman are as follows:

- 8 • Goodman's FVRB is set at \$1,755,118. (Section 2.2)
- 9 • The overall revenue increase of \$138,000 is significantly less than
10 what either Staff or Goodman recommends. (Sections 1.9 and 2.1)
- 11 • The rate increase is phased in over three (3) years. (Section 2.6)
- 12 • Goodman waives its right to foregone revenues and any accumulated
13 interest associated with the phase in period. (Section 2.6)
- 14 • Goodman is not entitled to receive accrued interest on the amount of
15 deferred depreciation expense. (Section 2.4)
- 16 • Goodman may not file for another rate increase for at least four (4)
17 years (Section 2.8)
- 18 • The rate design adopted in the Settlement Agreement provides a
19 small rate decrease for the first year for customers who use less than
20 3,000 gallons per month.
- 21 • Defers the excess capacity argument to a future rate case with the
22 possibility of having this issue become moot if the developers are

1 able to build out the community completely during the next four
2 years.

- 3 • Resolves disputed rate case issues including land valuation, excess
4 capacity, and rate case expense thereby reducing the risk of
5 protracted litigation costs.

6
7 **Q. Why is it important to resolve the rate case expense and excess**
8 **capacity issues?**

9 A. Perhaps the most contentious issue in this rate case is the issue of excess
10 capacity. The community is very aware of it and the Intervenors and
11 RUCO have taken a strong position of removing excess capacity from rate
12 base. The Company and Staff hold positions opposite those of RUCO
13 and the Intervenors and claim that little or no excess capacity exists on the
14 Goodman system. A Commission Decision that would include most of the
15 plant in rate base would only exacerbate the ill will that currently exists
16 between the Company and the community.

17
18 The Settlement Agreement makes no determination on the issue of
19 excess capacity. In fact, any determination of the issue would be resolved
20 in a future rate case. RUCO views the deferral of this important issue as a
21 benefit in two ways. First, the Settlement Agreement adopts RUCO's
22 FVRB of \$1,755,118 which is considerably lower than the FVRB
23 recommended by either Goodman or Staff. Second, this provision

1 encourages the community to support lot sales which in turn would
2 diminish if not eliminate the excess capacity issue in a future rate case.
3 This approach benefits both the ratepayer and the utility because of the
4 possibility of eliminating future litigation on this issue.

5
6 Rate case expense is also a hotly contested issue with each party
7 entrenched in its position. While not as large of an issue as excess
8 capacity, it certainly is an emotional one for the parties. The Settlement
9 Agreement resolves it in a manner acceptable to all signatories.

10
11 **RATE INCREASE/RATE STABILITY**

12 **Q. Why is four (4) year rate freeze an important element in this**
13 **Settlement?**

14 **A.** The four (4) year rate freeze provides security to the residents of Eagle
15 Crest that their water rates will not increase beyond the phased-in rates
16 established in the Settlement Agreement. This stability gives the community
17 comfort that prospective purchasers of homes won't be scared off by the
18 threat of looming rate spikes. It also provides the Company an incentive to
19 get as many lots developed as possible in order to bring the community to
20 full build out.

RATE IMPACT

Q. What is the impact on the average and median residential bill for the three years of the phase-in of the rate increase?

A. Here is a comparison of the percentage of rate increase for the average residential customer under the three-year phase in.

| <u>5/8 x 3/4</u> | <u>Current</u> | <u>Goodman</u> | <u>Staff</u> | <u>RUCO</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
|--------------------|----------------|----------------|--------------|-------------|---------------|---------------|---------------|
| Avg. 5,520 gal. | --- | 41.01% | 38.1% | (0.2%) | 11.3% | 17.2% | 23.0% |

| <u>3/4</u> | <u>Current</u> | <u>Goodman</u> | <u>Staff</u> | <u>RUCO</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
|--------------------|----------------|----------------|--------------|-------------|---------------|---------------|---------------|
| Avg. 6,028 gal. | --- | 38.64% | 35.4% | (1.9%) | 9.0% | 14.8% | 20.5% |

Here is a comparison of the bill impact for the average residential customer.

| <u>5/8 x 3/4</u> | <u>Current</u> | <u>Goodman</u> | <u>Staff</u> | <u>RUCO</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
|------------------|----------------|----------------|--------------|-------------|---------------|---------------|---------------|
| 5,520 gal. | \$66.98 | \$94.46 | \$92.51 | \$66.84 | \$74.55 | \$78.49 | \$82.36 |

| <u>3/4 in.</u> | <u>Current</u> | <u>Goodman</u> | <u>Staff</u> | <u>RUCO</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
|----------------|----------------|----------------|--------------|-------------|---------------|---------------|---------------|
| 6,028 gal. | \$91.08 | \$126.28 | \$123.29 | \$89.39 | \$99.29 | \$104.57 | \$109.71 |

1 **Q. Why does RUCO support rate increases beyond the 1.47% rate**
2 **increase it recommended in litigation?**

3 A. RUCO recognizes that it supports a proposed settlement that increases
4 rates higher than what RUCO originally recommended at hearing. But,
5 negotiations are a series of give and take. In exchange for the rate
6 increase in the Settlement Agreement, the Settlement Agreement also
7 adopts RUCO's FVRB figure of \$1,755,118.

8
9 RUCO considers the FVRB of \$1,755,118 a key element of the Settlement
10 Agreement. At hearing, RUCO insisted that almost 50% of plant added
11 since the last rate case was not used and useful and, therefore, must be
12 excluded from rate base. RUCO's position is in direct conflict with that of
13 Staff and Goodman.

14
15 A \$1,755,118 FVRB serves the interest of both the utility and the
16 residents. For the residents, had the Commission adopted the Fair Value
17 Rate Base figures recommended by either Goodman or Staff, the
18 residents would have been subject to an immediate rate spike of up to
19 43%. It would be almost impossible to argue in a future rate case that
20 plant that had once been included in rate base should now be excluded
21 from rate base.

1 Under the terms of the proposed Settlement Agreement, the rate base
2 remains largely unchanged from the FVRB established in Goodman's prior
3 rate case. In exchange for a three year phased in rate increase, the issue
4 of excess capacity is pushed off for another four years. During those four
5 years, the community has an opportunity to work with Goodman to bring
6 Eagle Crest as close to full build out as possible. If that does happen,
7 then at the end of four years, the issue of excess capacity will be moot. At
8 that time, from RUCO's perspective, the infrastructure that is already built
9 out to serve the entire community will now actually be used and useful.

10
11 **Q. How does the rate design impact low usage customers?**

12 **A.** The rate design mitigates the rate impact for low usage customers. While
13 the average rate impacts are listed above, the impacts are smaller for those
14 who use less than the average number of gallons. Conversely, customers
15 who use an above average amount of water in a month will see a higher bill
16 impact.

17
18 The rate design adopted by the Settlement Agreement provides a rate
19 decrease in the first year for the low usage customers. Customers using
20 3,000 gallons or less will see anywhere from a -1.8% to a -3.0% rate
21 decrease for the first year. In reviewing the test year bill counts,
22 approximately 159 customers (out of Goodman's 626 customers) will
23 receive a small decrease in the first year. RUCO took note of one

woman who came to public comment who said she even watches how many times she flushes her toilet or showers in order to keep her bills low and that she uses around 1,500 gallons per month. For this customer, and others similarly situated, she would receive a modicum of relief for the first year and small rate increases over the next two years.

Q. Does that conclude your testimony on this subject?

A. Yes.



GOODMAN WATER COMPANY
DOCKET NO. W-02500A-10-0382
TEST YEAR ENDED DECEMBER 31, 2009

REVENUE REQUIREMENT - PROPOSED SETTLEMENT AGREEMENT

| Line No. | | (A) Phase-In Year 1 | (B) Phase-In Year 2 | (C) Phase-In Year 3 |
|----------|--|---------------------------|---------------------------|---------------------------|
| 1 | Proposed Fair Value Rate Base | \$1,755,118 | \$1,755,118 | \$1,755,118 |
| 2 | Proposed Fair Value Rate of Return | 7.47% (a) | 8.58% (b) | 9.68% (c) |
| 3 | Proposed Increase in Operating Revenue | \$69,000 | \$103,500 | \$138,000 |
| 4 | Adjusted Test Year Revenue | \$594,459 | \$594,459 | \$594,459 |
| 5 | Proposed Annual Revenue (Line 3 + Line 4) | \$663,459 | \$697,959 | \$732,459 |
| 6 | Percentage Increase in Revenue (Line 3 / Line 4) | 11.61% | 17.41% | 23.21% |
| 7 | Rate of Return on Common Equity | 7.25% | 8.60% | 9.94% |

Capital Structure Used to Obtain Proposed Fair Value Rate of Return:

| | | | |
|----------------------------------|--------|-------|-------|
| (a) Debt | 18.00% | 8.50% | 1.53% |
| Equity | 82.00% | 7.25% | 5.94% |
| Total | 82.00% | | |
| Weighted Average Cost of Capital | | 7.47% | |

| | | | |
|----------------------------------|--------|-------|-------|
| (b) Debt | 18.00% | 8.50% | 1.53% |
| Equity | 82.00% | 8.60% | 7.05% |
| Total | 82.00% | | |
| Weighted Average Cost of Capital | | 8.58% | |

| | | | |
|----------------------------------|--------|-------|-------|
| (c) Debt | 18.00% | 8.50% | 1.53% |
| Equity | 82.00% | 9.94% | 8.15% |
| Total | 82.00% | | |
| Weighted Average Cost of Capital | | 9.68% | |

BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

JUN 04 1999

DOCKETED BY

sd



CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
TONY WEST
COMMISSIONER

IN THE MATTER OF THE JOINT APPLICATION
OF BELLA VISTA WATER CO., INC. AND
NICKSVILLE WATER CO., INC. TO APPROVE
ACQUISITION/MERGER/CONSOLIDATION
AND FOR NEW RATES.

DOCKET NO. W-02465A-98-0458
DOCKET NO. W-01602A-98-0458

DECISION NO. 61730

OPINION AND ORDER

DATE OF HEARING: May 5, 1999

PLACE OF HEARING: Sierra Vista, Arizona

PRESIDING OFFICER: Jane L. Rodda

APPEARANCES: William Sullivan, MARTINEZ & SULLIVAN, on behalf of
Applicants;

Stephen Gibelli, Staff Counsel on behalf of the Residential Utility
Consumers Office; and

Christopher Kempley, Assistant Chief Counsel Legal Division, on
behalf of the Commission's Utilities Division

BY THE COMMISSION:

On July 22, 1998, Bella Vista Water Co. Inc. ("Bella Vista") and Nicksville Water Co., Inc. ("Nicksville") (collectively the "Applicants") filed with the Arizona Corporation Commission ("Commission") a joint application to approve the acquisition/merger/consolidation of the two companies and for a rate increase. On August 19, 1998, the Commission's Utilities Division Staff ("Staff") filed a letter indicating the application was sufficient and classified the Applicants as a Class B utility. By Procedural Order dated August 28, 1998, the Commission established a schedule for filing testimony and established procedures for the conduct of the proceeding. On September 24, 1998, the Commission granted intervention to the Residential Utility Consumers Office ("RUCO"). Pursuant to the August 28, 1998 Procedural Order, a hearing on the application was held in Sierra Vista, Arizona on May 5, 1999. At the hearing the parties presented and provided testimony in support of a settlement agreement.

DISCUSSION

Bella Vista and Nicksville provide water service in Cochise County to an area that includes portions of the City of Sierra Vista. Bella Vista Ranches Limited, Bella Vista's parent organization, acquired Nicksville in 1991, and now wants to merge Nicksville into Bella Vista to simplify operations and record keeping. Bella Vista is currently earning a less than reasonable return and has requested new rates based on the combined operation of the two companies. Bella Vista served an average of 6,292 customers in 1997 (the "test year" or "TY"), and Nicksville served an average of 235 customers during the same period.

Under current rates and based on Staff's adjustments, the combined entity produced total revenue of \$2,609,611 in the TY. Based on Staff's adjusted TY expenses of \$2,169,127, the combined entity experienced operating income of \$440,484, a rate of return of 8.06 percent based on Staff's adjusted rate base of \$5,463,151.

In their original application the companies requested a total revenue level of \$3,013,472, plus a purchased power adjuster mechanism ("PPAM"), for an increase of \$403,861 over adjusted TY revenues. The Companies requested a rate of return on equity of 11.5 percent and weighted cost of capital of between 11.08 and 13.03 percent, which included a premium as an incentive to maintain good management practices. RUCO recommended total revenues of \$2,801,798. RUCO did not perform a cost of capital study, but based on the companies' analysis, recommended an 11.5 percent return on equity and a weighted cost of capital of 11.08 percent. Staff recommended rates that would produce revenues of \$2,831,681, with no PPAM. Staff recommended a return on equity of 11.0 percent and a weighted cost of capital of 10.6 percent. Prior to reaching a negotiated agreement shortly before the scheduled hearing, the parties did not agree on the composition of rate base. Originally, the companies sought an Original Cost Rate Base ("OCRB") of \$5,729,913, but revised that figure to \$5,667,460 in their rebuttal testimony. RUCO recommended an OCRB of \$5,116,614 and Staff recommended \$5,463,151. The main points of contention involved the amount of post-test year plant to include at the current time. Finally, all parties agreed that combining the Bella Vista and Nicksville entities resulted in greater operating efficiencies and was in the public interest.

In the Settlement Agreement, a copy of which is attached hereto as Exhibit A, the parties

1 agreed to an OCRB of \$5,547,964, a rate of return of 10.75 percent, and a total revenue level of
2 \$2,884,059, with no PPAM. Although it does not address all of the specific issues related to
3 individual expenses or rate base components, based on all the evidence presented in this case, the
4 Settlement Agreement's resolution of the OCRB, total revenue and rate design is reasonable.

5 As a result of the consolidation of the Bella Vista and Nicksville systems, the customers of
6 Nicksville will enjoy a significant rate decrease since they will benefit from spreading the costs of
7 operations among a greater customer base. There is no indication, however, that the customers on the
8 Bella Vista system are subsidizing the much smaller Nicksville customers. Both systems will receive
9 benefits from interconnection.

10 * * * * *

11 Having considered the entire record herein and being fully advised in the premises, the
12 Commission finds, concludes, and orders that:

13 FINDINGS OF FACT

14 1. On July 22, 1998, Bella Vista and Nicksville filed with the Commission a joint
15 application to approve the acquisition/merger/consolidation of the two companies and for a rate
16 increase.

17 2. On August 19, 1998, Staff filed a letter indicating the application was sufficient and
18 classified the Applicants as a Class B utility.

19 3. By Procedural Order dated August 28, 1998, the Commission established a schedule
20 for filing testimony and established procedures for the conduct of the proceeding.

21 4. On September 24, 1998, the Commission granted intervention to RUCO.

22 5. Pursuant to the August 28, 1998 Procedural Order, a hearing on the application was
23 held in Sierra Vista, Arizona on May 5, 1999.

24 6. On May 5, 1999, the parties entered into a Settlement Agreement, a copy of which is
25 attached hereto as Exhibit A, and incorporated herein by reference.

26 7. Under the terms of the Settlement Agreement it is agreed that Bella Vista and
27 Nicksville will be merged and consolidated with the surviving entity to be Bella Vista; the
28 consolidated entity's OCRB and Fair Value Rate Base ("FVRB") is \$5,547,964; 10.75 percent is a

1 reasonable rate of return on the FVRB; total revenues of \$2,884,059, composed of \$119,814 in Other
2 Operating Revenues and \$2,764,245 in Water Sales is necessary to achieve the agreed upon rate of
3 return; Bella Vista is authorized to continue to collect a Purchase Power Adjuster of \$0.5 per 1,000
4 gallons until the PPAM Bank Balance existing on the effective date for new rates is fully collected;
5 and the new rates will be effective for usage on and after June 1, 1999.

6 8. Under the agreed upon rates the average Bella Vista 5/8" x 3/4" meter bill will increase
7 15.5 percent from \$22.05 to \$25.46 and the average Nicksville 5/8" x 3/4" meter bill will decrease 45.1
8 percent from \$41.06 to \$22.53.

9 9. The merger of Nicksville into Bella Vista will result in cost savings from the
10 elimination of duplicate books, records and reports and simplified administration and the customers
11 of both systems will benefit from interconnection.

12 10. Based on all the evidence presented in pre-filed testimony and at the hearing, the terms
13 of the Settlement Agreement are reasonable.

14 CONCLUSIONS OF LAW

15 1. The Applicants are public service corporations within the meaning of Article XV of
16 the Arizona Constitution and A.R.S. §§ 40-250, 40-251 and 40-285.

17 2. The Commission has jurisdiction over the Applicants and of the subject matter of the
18 application.

19 3. Notice of the application was provided in the manner prescribed by law.

20 4. The merger and consolidation of Nicksville into Bella Vista is in the public interest

21 5. The rates set forth in the Attachment to the Settlement Agreement are just and
22 reasonable and should be adopted.

23 ORDER

24 IT IS THEREFORE ORDERED that the Settlement Agreement, a copy of which is attached
25 hereto as Exhibit A, shall be approved and Bella Vista Water Co., Inc. shall file a tariff that complies
26 with the terms of the Settlement Agreement within ten days of the effective date of this Order.

27 IT IS FURTHER ORDERED that the merger/consolidation of Nicksville Water Co. Inc. into
28 Bella Vista Water Co., Inc. is hereby approved.

1 IT IS FURTHER ORDERED that Bella Vista Water Co., Inc. and Nicksville Water Co., Inc.
2 shall file documentation of the completion of the merger with the Director of the Utilities Division
3 within ten days of finalizing the transaction.

4 IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for
5 usage on and after June 1, 1999.

6 IT IS FURTHER ORDERED that Bella Vista Water Co., Inc. shall mail notification of the
7 merger and the approved rates and charges and their effective date to all customers within ten days of
8 the effective date of this Order.

9 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

11
12 
13 CHAIRMAN

11
12 
13 COMMISSIONER.

11
12 
13 COMMISSIONER

15 IN WITNESS WHEREOF, I, BRIAN C. MCNEIL, Executive
16 Secretary of the Arizona Corporation Commission, have
17 hereunto set my hand and caused the official seal of the
18 Commission to be affixed at the Capitol, in the City of Phoenix,
19 this 4th day of June, 1999.

18
19 
20 BRIAN C. MCNEIL
21 EXECUTIVE SECRETARY

21 DISSENT _____
22 JR:dap

SERVICE LIST FOR:

BELLA VISTA WATER CO., INC. and NICKSVILLE
WATER CO., INC.

DOCKET NOS.

W-02465A-98-0458 and W-01602A-98-0458

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Vice President / General Manager
Bella Vista Water Company
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Legal Division
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Phoenix, Arizona 85007

Director, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

**ATTACHMENT A
SETTLEMENT
SERVICE CHARGES**
(Summary*)

| | | | |
|--------------------------------|---------------------------|--|--------------------------------|
| Establishment | \$ <u>30.00</u> | Re-establishment (within 12 months) | Monthly minimum |
| Establishment (after hours) | \$ <u>45.00</u> | | X |
| Reconnection (delinquent) | \$ <u>30.00</u> | | No. of months off system |
| Reconnection (after hours) | \$ <u>45.00</u> | Deferred Payment | <u>1.5%</u> |
| Meter Test | \$ <u>30.00</u> | Late Payment | Greater of 1.5% or |
| Re-Read | \$ <u>15.00</u> | Charge | <u>\$5.00</u> |
| NSF Check | \$ <u>15.00</u> | Moving Meter at Customer Request | \$ <u>Cost</u> |
| Deposit (residential) | 2 x Avg. <u>Bill</u> | Damage to Meter | \$ <u>Cost</u> |
| Deposit (non- residential) | 2.5 x Max. <u>Bill</u> | | |

IN ADDITION TO THE COLLECTION OF ITS REGULAR RATES AND CHARGES, THE COMPANY SHALL COLLECT FROM ITS CUSTOMERS THEIR PROPORTIONATE SHARE OF ANY SPECIAL ASSESSMENTS, TAXES OR SURCHARGES THAT ARE OR MAY BE IMPOSED BY THE STATE OF ARIZONA, ANY POLITICAL SUBDIVISION OR ANY OTHER GOVERNMENTAL AGENCY.

*As more fully set forth in the Tariffs of Company and the rules and regulations of the Arizona Corporation Commission.

DECISION NO.

61730

EXHIBIT A

SETTLEMENT AGREEMENT

**In the Matter of Bella Vista Water Co., Inc.
and Nicksville Water Co., Inc.**

(Docket Nos. W-02465A-98-0458 and W-01602A-98-0458)

Bella Vista Water Co., Inc. and Nicksville Water Co., Inc. (the "Applicants" and/or the "Companies," the Residential Utility Consumer Office and the Staff of the Arizona Corporation Commission (collectively the "Parties") enter into this Settlement Agreement in and of the above referenced Dockets.

WHEREAS, the Parties are participants in Docket Nos. W-02465A-98-0458 and W-01602A-98-0458 (the "Dockets") and have reviewed the testimony filed to date in the above referenced Dockets and finding there is substantial basis therein to support the following agreement and recommendations;

WHEREAS, the Parties having determined it is beneficial to the Parties and the public to resolve this matter by stipulation rather than costly and time consuming contested hearings;

NOW, THEREFORE, it is agreed and recommended as follows:

1. Based upon the evidence set forth in the pre-filed testimony of the Parties and to be presented at hearing, the following represents a reasonable resolution of the Dockets:

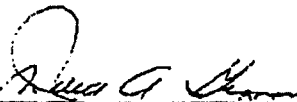
- A. A finding that it is in the public interest that the merger and consolidation of Nicksville Water Co., Inc. with and into Bella Vista Water Co., Inc. requested by the Applicants be approved by the Arizona Corporation Commission;
- B. An order approving the merger and consolidation of the Companies with Bella Vista Water Co., Inc. to be the surviving entity and authorizing the Applicants to take such actions as may be necessary to accomplish such consolidation and merger;
- C. A finding that the Original Cost Less Depreciation Rate Base and Fair Value Rate Base for the consolidated Companies is \$5,547,964;
- D. A finding that 10.75% is a reasonable rate of return on such Fair Value Rate Base;
- E. A finding that \$2,884,059 in revenues, composed of \$119,814 in Other Operating Revenues and \$2,764,245 in Water Sales, is necessary to achieve such rate of return on the Fair Value Rate Base;

- F. A finding that the rates and charges set forth on Attachment A attached hereto and incorporated herein as if set forth in full are fair and reasonable and will achieve the revenues set forth in Paragraph 1E hereof;
 - G. A finding that the Tariffs set forth in Applicant's Application as modified by Attachment A are fair and reasonable, except for provisions of Tariff No. 3 (Minimum Meter Size) relating to 5/8" and 3/4" meters which shall be deleted and Tariff No. 8 (Purchase Power Adjustment Mechanism) which shall be deleted subject to Paragraphs 4 and 5 hereof; and
 - H. An order approving the rates and charges set forth on Attachment A, and the Tariffs as set forth in Applicants Application with the modifications set forth herein, to be effective with usage on and after June 1, 1999.
2. The parties agree that by entering into this Settlement Agreement they are neither accepting nor rejecting any methodology or argument advanced by any party in the Dockets; that each party reserves the right to advocate any position on any issue raised in the Dockets; and that this Settlement Agreement and the Decision entered in accordance therewith shall not be construed as accepting or rejecting any methodology or argument advanced by any party in the Dockets.
3. If in its next rate case Bella Vista Water Co., Inc. advocates a three-tier rate design, the Company shall have the burden of demonstrating that the third-tier of its rate structure is effective in encouraging conservation of water resources and should be retained.
4. The Company, in addition to the rates and charges set forth on Attachment A, shall be authorized to continue to collect a Purchase Power Adjuster of \$0.05 until the PPAM Bank Balance existing on the date the rates and charges set forth herein become effective are fully collected. The Company shall submit a report to the Utility Division of the Arizona Corporation Commission within thirty (30) days of the effective date of the rates set forth herein become effective documenting the amount to be collected by the Purchase Power Adjuster. After the PPAM Bank Balance is collected, no adjuster shall be collected unless, after hearing, the Arizona Corporation Commission determines a PPAM should be implemented for the Company.
5. The elimination of the PPAM in this proceeding shall not be used by the Arizona Corporation Commission Staff, the Arizona Corporation Commission or RUCO to support the denial of the PPAM in the future. Approval or denial of a PPAM for the Company in the future will be determined solely from the evidence developed on the record in the proceeding where the PPAM is addressed.

6. Unless and until the Arizona Corporation Commission rejects this Settlement Agreement, the parties shall take no position inconsistent with this Settlement Agreement and shall present evidence in support thereof at any proceeding on the Dockets.

7. Except for Paragraph 6 hereof, this Settlement Agreement shall have no force and effect unless and until approved by the Arizona Corporation Commission and, unless waived by Applicants, the rates and charges set forth on Attachment A are effective for usage commencing June 1, 1999.

Dated this 5th day of May, 1999.



For Applicants, Bella Vista Water Co., Inc.
and Nicksville Water Co., Inc.



For Staff of the Arizona Corporation Commission



For the Residential Utility Consumers Office

ATTACHMENT A
SETTLEMENT
RATES AND CHARGES
 (Summary*)

Monthly Usage Charge:

Service Line and Meter Charge**:

| <u>Minimum</u> | | <u>Installation</u> | |
|-----------------------|-------------|---------------------|-------------|
| (no gallons included) | | | |
| 5/8 x 3/4" | \$ 13.80 | 5/8 x 3/4" | \$ 350.00 |
| 3/4" | \$ 20.70 | 3/4" | \$ 350.00 |
| 1" | \$ 25.88 | 1" | \$ 400.00 |
| 1 1/2" | \$ 31.74 | 1 1/2" | \$ 500.00 |
| 2" | \$ 38.92 | 2" compound | \$ 675.00 |
| 3" | \$ 111.50 | 3" compound | \$ 1,500.00 |
| 4" | \$ 158.36 | 4" compound | \$ 2,500.00 |
| 6" | \$ 871.65 | 6" compound | \$ 4,400.00 |
| 8" | \$ 1,192.00 | 8" | \$ at cost |

** plus actual road crossing costs

Commodity Rate

\$.90 Per 1,000 Gallons (1 to 5,000)

\$1.75 Per 1,000 Gallons (over 5,000)

\$2.14 Per 1,000 Gallons (over 25,000, 1" meters and smaller, only)

Fire Sprinkler Service

1% of Monthly minimum for comparable sized meter,
 but not less than \$5.00 per month.

Purchased Power Adjuster

A pumping power adjuster of \$0.05 shall be added for all water usage billed until the PPAM Bank Balance existing as of the effective dates of these rates is collected.

*As more fully set forth in the Tariffs of Company and the rules and regulations of the Arizona Corporation Commission.

DECISION NO.

61730

BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

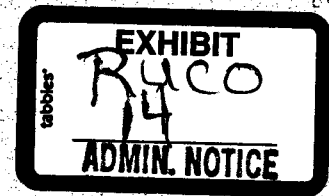
Arizona Corporation Commission

DOCKETED

NOV 19 2008

DOCKETED BY

NR



IN THE MATTER OF THE APPLICATION OF
GOLD CANYON SEWER COMPANY FOR A
DETERMINATION OF FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND CHARGES
FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-02519A-06-0015

DECISION NO. 70624

REHEARING OPINION AND ORDER

DATES OF REHEARING:

November 14, 2007; February 25, 2008; March 31, 2008

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Dwight D. Nodes

IN ATTENDANCE:

Mike Gleason, Chairman
William A. Mundell, Commissioner
Kristin K. Mayes, Commissioner
Gary Pierce, Commissioner

APPEARANCES:

Mr. Jay L. Shapiro, FENNEMORE CRAIG, P.C., on
behalf of Gold Canyon Sewer Company;

Mr. Daniel Pozefsky, on behalf of the Residential Utility
Consumers Office;

Mr. Mark Tucker, MARK TUCKER, P.C., on behalf of
Cal-Am Properties, Inc.; and

Ms. Robin Mitchell, Mr. Keith Layton, and Ms. Nancy
Scott, Staff Attorneys, Legal Division, on behalf of the
Utilities Division of the Arizona Corporation
Commission.

BY THE COMMISSION:

On January 13, 2006, Gold Canyon Sewer Company ("Gold Canyon" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges for wastewater utility service provided to customers in the Company's certificated service area in Pinal

1 County, Arizona.

2 On June 28, 2007, the Commission issued Decision No. 69664, granting a rate increase to
3 Gold Canyon.

4 On July 18, 2007, the Residential Utility Consumer Office ("RUCO") filed an Application for
5 Rehearing on two issues raised by RUCO during the hearing: (1) an allegation of "excess capacity" in
6 the Company's treatment plant and (2) the capital structure employed in the Commission's Order for
7 purposes of determining the Company's cost of capital.

8 During an Open Staff Meeting held on August 1, 2007, the Commission granted rehearing to
9 RUCO.

10 A procedural conference was held on September 5, 2007. During the procedural conference,
11 the parties discussed, among other things, testimony filing dates and potential hearing dates.

12 By Procedural Order issued September 14, 2007, a hearing was scheduled to begin on
13 November 13, 2007, Gold Canyon was directed to publish notice of the hearing, and testimony filing
14 dates were established.

15 By Procedural Order issued October 15, 2007, a procedural conference was scheduled for
16 October 22, 2007, to discuss a discovery dispute between the Company and the Commission's
17 Utilities Division Staff ("Staff"). The Procedural Order also granted an extension of the testimony
18 filing deadline.

19 The November 13, 2007, hearing was vacated due to unavailability of the hearing facility.
20 The hearing commenced on November 14, 2007, but did not conclude that day. At the end of the
21 hearing on November 14, 2007, the parties were directed to discuss scheduling of additional hearing
22 days and to submit a proposed schedule.

23 On November 20, 2007, RUCO, Staff, and the Company filed a Joint Motion to Set
24 Continued Rehearing Dates. The parties requested that additional hearing days be scheduled for
25 January 17 and 18, 2008.

26 By Procedural Order issued November 29, 2007, the rehearing in this matter was scheduled to
27 resume on January 17 and 18, 2008.

28 On December 11, 2007, RUCO requested that the rehearing be rescheduled to resume on

1 February 25, 2008, due to an out-of-state commitment by RUCO's counsel.

2 By Procedural Order issued December 12, 2007, the hearing was rescheduled to resume on
3 February 25, 2008. An additional day of hearing was conducted, as scheduled, on February 25, 2008,
4 but the hearing was not concluded on that day. The parties agreed to an additional hearing day on
5 March 31, 2008.

6 On March 31, 2008, the hearing resumed with the cross-examination of Staff witnesses. The
7 hearing did not conclude on that date, however, due to the unavailability of a RUCO witness.

8 On April 10, 2008, a teleconference was conducted with the parties. Due to the continuing
9 unavailability of the RUCO witness for cross-examination, the parties agreed that portions of the
10 RUCO witness's prior testimony would be stricken.¹ In addition, a briefing schedule was established.

11 Opening briefs were filed on May 5, 2008, by RUCO, Gold Canyon and Staff, and reply
12 briefs were filed on May 22, 2008, by the same parties.

13 * * * * *

14 Having considered the entire record herein and being fully advised in the premises, the
15 Commission finds, concludes, and orders that:

16 **FINDINGS OF FACT**

17 1. In Decision No. 69664, the Commission granted Gold Canyon a revenue increase of
18 approximately \$1.8 million, resulting in an increase to residential sewer rates from \$35.00 to \$60.55
19 per month, or approximately 72 percent.

20 2. In its Application for Rehearing, RUCO argued that the rate increase is unfair to
21 customers due to its magnitude. RUCO raised two specific issues as a basis for its rehearing request:
22 (1) the Commission should have disallowed from rate base approximately \$2.8 million to reflect what
23 RUCO claims is "excess capacity" in Gold Canyon's wastewater treatment plant; and (2) the
24 Commission should have adopted RUCO's proposed hypothetical capital structure of 60 percent
25 equity and 40 percent debt, rather than the actual 100 percent equity capital structure used by the
26 Commission, to calculate the Company's cost of capital.

27 ¹ Under the parties' agreement, page 87, line 12 through page 92, line 9, and page 100, line 21 through page 101, line 15,
28 of the verbal testimony of RUCO witness Marylee Diaz Cortez at the November 14, 2007, hearing was deleted from the
evidentiary record.

1 3. During a Staff Meeting held on August 1, 2007, the Commission voted to grant
2 RUCO's rehearing request and send the matter back for additional hearings on the issues raised by
3 RUCO.

4 4. Hearings were held before an Administrative Law Judge, and additional testimony and
5 exhibits were admitted into the evidentiary record. The record produced by the prior hearings in this
6 docket was incorporated into the rehearing record of this case.

7 **Excess Capacity**

8 5. In Decision No. 69664, the Commission agreed with the Company and Staff that Gold
9 Canyon's decision to increase the treatment plant's capacity from 1.0 million gallons per day ("gpd")
10 to 1.9 million gpd was reasonable and should not result in a disallowance from rate base. As
11 described in that Decision, the Commission disagreed with RUCO's proposed use of a mathematical
12 disallowance, because of the evidence in the record that increasing the plant's capacity to 1.9 million
13 gpd was a prudent decision based on peak flows and growth projections available to the Company at
14 the time the decision was made.

15 6. As stated in Decision No. 69664, RUCO witness Rodney Moore conceded that Gold
16 Canyon's decision to expand the treatment plant to 1.9 million gpd, rather than to 1.5 million gpd,
17 was "reasonable" and "appropriate" and that the Company must consider *peak* flows in its analysis,
18 as opposed to *average* daily flows, in making its plant expansion decisions. (Tr. 943, 951-54.)
19 Despite these admissions, Mr. Moore advocated use of an average daily flow rate of 708,000 gpd for
20 purposes of calculating RUCO's proposed \$2.8 million disallowance. RUCO's proposal is based on
21 its contention that approximately 28 percent of the plant is not "used and useful" from a "ratemaking
22 perspective." (Decision No. 69664, at 6.)

23 7. As set forth in Decision No. 69664, Company witness Charles Hernandez, Gold
24 Canyon's treatment plant operator, testified that Gold Canyon experienced a peak flow of almost 1.2
25 million gpd in February 2005. Based on growth projections at the time, Staff witness Marlin Scott,
26 Jr., estimated that Gold Canyon would have a peak flow of more than 1.5 million gpd by mid-2007.
27 As we stated in that Decision:
28

1 not only did test year peak flows exceed the then-current capacity, but if
2 the Company had expanded the plant to only 1.5 [million gpd], in order to
3 avoid RUCO's proposed excess capacity disallowance, it would have
needed to almost immediately begin planning to add another incremental
amount of capacity to meet ongoing demand increases." (*Id.* at 7.)²

4 We also cited to testimony in the record that the additional 400,000 gpd of capacity was installed at a
5 cost of approximately \$1 million, whereas adding the same increment of capacity at a later date
6 would have cost substantially more.³

7 RUCO's Position

8 8. In the rehearing phase of this proceeding, RUCO witness Moore continues to rely on
9 the Company's average daily flows, rather than peak flows, for purposes of calculating RUCO's
10 excess capacity adjustment. He also stated that RUCO's proposed disallowance is supported by the
11 slower than anticipated growth that has occurred in the past two years (RUCO RH-1, at 2-5). In its
12 post-hearing brief, RUCO states that "[w]hile no one has a crystal ball, given the actual growth that
13 Gold Canyon has experienced since 2006, it is unlikely the Company will reach build-out by 2010"
14 (RUCO Closing Brief at 2).

15 9. RUCO cites to several Commission decisions as precedent for its proposed excess
16 capacity adjustment. RUCO cites Decision No. 50273 (*Litchfield Park Service Co.*, September 20,
17 1979), an accounting order in which the Commission excluded 50 percent of a new wastewater
18 treatment plant because only 50 percent of the plant was being utilized. There was no hearing held in
19 the case and, in the two-page accounting order, there was no discussion of the details of the plant's
20 construction or whether LPSCO opposed the exclusion. When LPSCO sought inclusion of the
21 remaining 50 percent of the plant in rate base approximately 10 years later, RUCO claims, Staff
22 recommended disallowance, and LPSCO did not oppose that recommendation. (*See* Decision No.
23 56362, February 22, 1989, at 7).

24
25 ² Staff witness Marlin Scott explained that capacity requirements are evaluated over a five-year planning horizon and,
26 under the Arizona Department of Environmental Quality's ("ADEQ's") "80 percent rule," sewer utilities are expected to
have plans in place to increase capacity when demand reaches 80 percent of capacity and to have construction under way
when demand reaches 90 percent of capacity (*Id.*).

27 ³ Mr. Hernandez stated that adding 400,000 gpd of capacity at a later date would have cost the Company as much as \$9
28 million. He also indicated that adding the additional capacity separately would have caused significant disruption to
neighboring customers in the form of noises and odors that were experienced during the prior plant expansion (Rh. Tr.
246, 301-03).

1 10. RUCO also cites Decision No. 57395 (*Chaparral City Water Co.*, May 23, 1991, at 5)
2 for the proposition that Chaparral City, not ratepayers, was required to bear the risk that anticipated
3 growth would not occur. In that case, the Commission specifically did not exclude the Central
4 Arizona Project ("CAP") facilities from rate base but, instead, adopted a rate design that allocated a
5 portion of the recovery of some of the plant investment onto future customers through a hook-up fee.
6 (*Id.* at 5-6.) However, Chaparral City's revenue requirement allowed for a return on the full cost of
7 the plant. (*Id.*)

8 11. RUCO next argues that Decision No. 58743 (*Pima Utility Co.*, August 11, 1994, at 4-
9 5) supports its claim that plant not serving customers is properly excluded from rate base because it is
10 not used and useful. In that case, the Commission denied Pima Utility's request for inclusion of
11 construction work in progress ("CWIP") in rate base and, according to RUCO, drew a distinction
12 between the used and useful concept from a ratemaking and an engineering standpoint. In that
13 Decision, the Commission found that, 15 months after the test year, the phase of the development to
14 be served by the new plant was completely uninhabited, and therefore, the plant built to serve future
15 customers was not used and useful and should be excluded from rate base. (*Id.*)

16 12. The final case cited by RUCO is Decision No. 56659 (*Tucson Electric Power Co.*,
17 October 21, 1989, at 19-21), wherein the Commission excluded from rate base approximately \$32.5
18 million related to TEP's investment in a mineable source of coal located in Gallo Wash, New
19 Mexico, through an agreement that required TEP to make royalty payments whether or not any coal
20 was actually mined. In making the disallowance, the Commission stated that there was no evidence
21 any coal would ever be mined at the location and no railroad access to the mine that would enable
22 transportation of the coal even if it were mined. As a result, the Commission found that the property
23 was not used and useful and that "the investment is imprudent." (*Id.* at 20.)

24 Gold Canyon and Staff Positions

25 13. The Company and Staff argue that the cases cited by RUCO do not support its
26 proposed excess capacity recommendation. Both point out that the *Chaparral City* case (Decision
27 No. 57395) provided for recovery of the full costs of the CAP plant, despite the plant's capacity being
28 greater than was needed to serve existing customers. With respect to the *LPSCO* matter, Gold

1 Canyon contends that the Commission's accounting order (Decision No. 50273) included virtually no
2 discussion concerning the reason for the disallowance, and when the plant was still not being used to
3 serve customers 10 years later, LPSCO did not challenge Staff's continued disallowance
4 recommendation. (Decision No. 56362.) The Company claims that, in contrast to the LPSCO
5 situation, Gold Canyon's plant was prudently built (by RUCO's admission), and the capacity is used
6 and useful to serve customers over a five-year planning horizon.

7 14. Staff and the Company also argue that the *Pima Utility* case (Decision No. 58743)
8 does not support RUCO's claims. Staff asserts that the case shows the Commission's reluctance to
9 allow CWIP in rate base and, as such, has no bearing on the factual situation at issue in the Gold
10 Canyon case. Staff pointed out that because the area intended to be served by the new Pima Utility
11 plant was almost completely vacant well after the test year, inclusion in rate base would violate the
12 ratemaking principle of matching revenues and expenses. The Company added that CWIP plant is
13 entirely different from plant that is completed during the test year and is built to serve current
14 customers and expected growth over a five-year horizon. Regarding the *TEP* case, Gold Canyon
15 cited to the Commission's finding that TEP's investment was imprudent, because no coal was or
16 could be delivered from the site, and the investment was therefore not used and useful. In contrast,
17 the Company points out that RUCO has acknowledged that Gold Canyon's addition of the 400,000
18 gpd increment of capacity was prudent.

19 Resolution of Excess Capacity Issue

20 15. The Gold Canyon system was acquired in 2003 by Algonquin Water Resources of
21 America ("Algonquin"). At that time, it had become apparent that the prior owner of the Company, a
22 homebuilder, had constructed a treatment system that, by all accounts, contained insufficient
23 treatment capacity for existing and expected customers. The inadequacy of the Gold Canyon
24 system's facilities was evidenced by the issuance of several Arizona Department of Environmental
25 Quality ("ADEQ") Notices of Violation to the Company due to raw sewage overflows into a wash
26 adjacent to the treatment plant during periods of heavy rainfall. The Company had also received
27 numerous complaints from area residents regarding odors and noise emanating from the original
28 treatment facility. (See Decision No. 69664 at 30-35.)

1 16. The evidence indicates that almost immediately upon acquisition of Gold Canyon
2 Sewer Company by Algonquin, the Company began planning to increase the plant's capacity and,
3 based on growth and peak flow projections at the time, decided that expansion of the plant from 1.0
4 to 1.9 million gpd would provide adequate capacity over a five-year planning horizon, pursuant to
5 ADEQ and Commission Staff guidelines, and would be the most cost-effective and least disruptive
6 means of expanding the plant. The testimony also indicates that the treatment plant had been built in
7 a less-than-ideal location adjacent to residential lots and a portion of a golf course. Following the
8 acquisition, Gold Canyon moved quickly to invest significant capital (approximately \$11 million) to
9 upgrade and expand the plant in order to meet growth projections and respond to the many
10 complaints registered by customers in the Gold Canyon community. (Tr. 678, 725-27.)

11 17. The record reflects that the guidelines employed by ADEQ and Commission Staff
12 require wastewater utility companies to plan treatment capacity needs using a five-year planning
13 horizon, based on peak flows. (Reh'g. Tr. at 512-14.) The ADEQ guidelines require companies to
14 begin planning to add additional capacity when peak flows reach 80 percent of capacity, and to have
15 construction underway when peak flows reach 90 percent of capacity. (Tr. at 305-06; Reh'g. Tr. at
16 523-34.) The plant's operator and Staff's engineer testified that Gold Canyon's treatment facility
17 achieved a peak flow of 117 percent of then-current capacity in February 2005. (Tr. at 254; Ex. S-1,
18 Attach. Ex. MSJ at 4.) In addition, it is undisputed that the smallest additional increment of capacity
19 that could have been added at that time was 500,000 gpd and that peak flows were projected to
20 exceed 1.5 million gpd by June 2007 (Tr. at 1066, Reh'g. Tr. at 257-58; Ex. S-1, Attach. Ex. MSJ at
21 4.) Under the facts known at the time, the Company had a choice. It could add the minimum
22 500,000 gpd of capacity and almost immediately begin construction of additional capacity to meet
23 projected demand, or it could increase treatment capacity to the maximum permitted capacity of 1.9
24 million gpd all at one time. The testimony indicates that adding the additional 400,000 gpd
25 increment of capacity at that time cost less than \$1 million, saving at least several million dollars
26 compared to increasing the capacity in phases. (Reh'g. Tr. at 257-58, 513.) The Company's decision
27 also avoided additional disruptions to customers that would have been experienced if the plant had
28 been built in phases.

1 18. We agree with RUCO that the Company had excess capacity at the Gold Canyon
2 treatment plant during the test year and will disallow \$1.0 million from the Company's rate base.
3 The Commission is including in rate base all of the necessary plant capacity through 2008. Once the
4 excess capacity becomes used and useful the Company will have the opportunity to earn a full rate of
5 return on the entire plant. Until that time, the Company shall establish a deferred depreciation
6 expense account to record the depreciation expenses on the disallowed plant. However, in the interim
7 the Commission believes the Company's rate base should be decreased by \$1.0 million.

8 **Hypothetical Capital Structure**

9 Decision No. 69664 Findings

10 19. In Decision No. 69664, we rejected RUCO's proposal to employ a hypothetical capital
11 structure of 40 percent debt and 60 percent equity for purposes of establishing Gold Canyon's cost of
12 capital. We agreed with Gold Canyon and Staff that the Company's actual 100 percent equity capital
13 structure should be used. Because a 100 percent equity capital structure tends to minimize the overall
14 financial risk for a company, we also adopted Staff's recommendation to employ a so-called
15 "Hamada" adjustment of 100 basis points to the cost of equity calculated by Staff, thereby reducing
16 Staff's Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") average of 10.2
17 percent to 9.2 percent. (Decision No. 69664, at 24-29.) With the 100 basis point reduction to Staff's
18 cost of equity determination, to account for Gold Canyon's risk being less than that of the sample
19 companies' used in Staff's analysis, the 9.2 percent rate of return adopted in the Decision was found
20 to be a reasonable reflection of the Company's weighted cost of capital in this proceeding. (*Id.* at 27-
21 29.)

22 RUCO's Position

23 20. In the rehearing phase, RUCO continues to advocate for adoption of a hypothetical
24 capital structure of 40 percent debt and 60 percent equity to account for Gold Canyon's lower level of
25 financial risk, due to the absence of debt in the Company's capital structure. In its Application for
26 Rehearing, as well as in the testimony of RUCO witness William Rigsby, RUCO agreed that the
27 recognition of a lower level of financial risk could be accomplished by either adjusting DCF results
28 downward or employing a hypothetical capital structure. (RUCO RH-4, Attach. 1, at 50-53.)

1 21. RUCO claims that its hypothetical capital proposal provides a more balanced result for
2 ratepayers and shareholders and would reduce the current monthly bill of \$60.55 to \$53.84 (RUCO
3 RH-1 at 6.) RUCO disputes the Company's assertion that RUCO is simply trying to lower customer
4 bills by any means possible. RUCO contends that its proposed methodology is consistent with past
5 Commission practices and takes into account the magnitude of the increase authorized by the
6 underlying Decision. RUCO cites to Article 15, Section 3, of the Arizona Constitution, which
7 requires the Commission to set "just and reasonable rates," and to language contained in a decision
8 rendered by the Arizona Supreme Court in *Arizona Community Action Assoc. v. Arizona Corporation*
9 *Comm'n*, 123 Ariz. 228, 231, 599 P.2d 184, 187 (1979), which provides: "A reasonable rate is not
10 one ascertained solely from considering the bearing of facts upon the profits of the corporation. The
11 effect of the rate upon persons to whom services are rendered is as deep a concern in the fixing
12 thereof as is the effect upon the stockholders." RUCO argues that it is within the Commission's
13 discretion to consider the magnitude of rate increases and the effects on customers in setting rates.
14 RUCO asserts that the Commission should take into account ratepayer comments that have been
15 received by the Commission through numerous letters and public comments.

16 22. RUCO also supports its hypothetical capital structure proposal with the claim that it
17 was the Company's choice to capitalize with 100 percent equity rather than with a mix of lower cost
18 debt. According to RUCO witness Rigsby, debt has the advantage of being able to reduce income
19 taxes, and thus overall expenses, whereas dividend payments to equity holders do not offer a similar
20 tax advantage. (RUCO RH-4, at 33.) RUCO argues that Gold Canyon should not be rewarded for its
21 "imprudent and unbalanced capital structure." (RUCO Brief at 9.) RUCO also claims that the
22 Company's capital structure should emulate the proxy group of companies used in the industry,
23 which Mr. Rigsby stated had average capital structures of 51 percent debt and 49 percent equity (*Id.*
24 at 13.)

25 23. RUCO contends that use of a hypothetical capital structure is preferable to Staff's
26 Hamada adjustment. Mr. Rigsby asserts that the problem with Staff's use of the Hamada
27 methodology is that Staff applied it to the average of its DCF and CAPM results instead of just the
28 CAPM. Mr. Rigsby also criticizes the Hamada adjustment's failure to produce an appropriate

1 interest deduction to reflect debt in the capital structure. He stated that the additional cash flows
2 associated with higher income tax expense benefits shareholders rather than ratepayers, whereas use
3 of a hypothetical capital structure reflects a more balanced capital structure and results in a lower cost
4 of capital for ratemaking purposes (*Id.* at 34.)

5 Staff's Position

6 24. Staff contends that RUCO has not offered any new testimony in the rehearing phase of
7 this case that was not previously considered by the Commission. Staff claims that none of the prior
8 Commission Decisions cited by RUCO in which the Commission adopted a hypothetical capital
9 structure involved an increase in the debt component. Rather, Staff says, they increased the equity
10 component as a means of enabling highly leveraged companies to earn their authorized rates of
11 return.

12 25. Staff concedes that a balanced capital structure is preferable, but disagrees that a
13 company that is capitalized with only equity has an imprudent capital structure. Staff claims that a
14 number of prior Commission Decisions have adopted 100 percent equity capital structures for water
15 and sewer companies. Staff also points out that the Commission has previously recognized the
16 appropriateness of using a Hamada adjustment to address a company's unbalanced capital structure
17 and has adopted Staff's Hamada recommendations in many prior cases.

18 26. Staff witness Steve Irvine testified that, contrary to RUCO's criticism, application of
19 the Hamada adjustment to the average of the DCF and CAPM results is an appropriate method to
20 adjust for financial risk. (Reh'g Tr. at 447-48.) Mr. Irvine conceded that using a hypothetical capital
21 structure may be an appropriate alternative to the Hamada adjustment for purposes of adjusting an
22 unbalanced capital structure, but he testified that Staff usually prefers the Hamada method because it
23 is a less subjective methodology. (*Id.* at 446.) Staff argues that excessive debt increases financial risk
24 and generally views excessive equity as less problematic than excessive debt. Staff also contends
25 that use of the Hamada adjustment to recognize a company's financial risk, which in this case
26 reduced Gold Canyon's cost of equity by 100 basis points, provides an incentive to the Company to
27 maintain a reasonable level of debt in its capital structure or face reductions to its authorized return
28 on equity.

Gold Canyon's Position

27. Gold Canyon contends that the Commission's Decision in the recent *Black Mountain Sewer Corporation*, case (Decision No. 69164, (December 5, 2006)), should be considered as controlling precedent in this proceeding because the stock of both Black Mountain and Gold Canyon is owned by Algonquin, both rate cases were filed in approximately the same time frame, and the Commission rejected RUCO's proposed hypothetical capital structure argument in *Black Mountain* and adopted Staff's 9.6 percent cost of equity recommendation. Staff's analysis in *Black Mountain* was based on an average of its DCF and CAPM calculations, but did not include a downward Hamada adjustment as was done in this case. (*Id.* at 23-27.)

28. The Company also cites a recent *Arizona-American Water Company (Paradise Valley)* case (Decision No. 68858 (July 28, 2006)), in which the Commission adopted Staff's recommended 10.4 percent cost of common equity, including a 50 basis point upward adjustment to reflect a higher financial risk associated with that company's high percentage of debt. (Decision No. 68858 at 28.) Gold Canyon claims that the *Paradise Valley* Decision properly reflects the Commission's use of an equity adjustment to recognize financial risk. The Company also points out that in a number of other recent cases involving both water and wastewater companies, the Commission has adopted Staff's recommended cost of equity, either with or without risk adjustments, but has not employed a hypothetical capital structure as a means of recognizing relative financial risk.⁴

29. Gold Canyon contends that the only two recent cases in which the Commission adopted a hypothetical capital structure involved Arizona-American's Mohave Water and Wastewater Districts and Southwest Gas Corporation.⁵ The Company argues that in both of those cases, the Commission made only minor adjustments to the companies' *actual* capital structures in setting the cost of equity. In the *Arizona-American* case, the Commission increased the company's equity component from 37.2 percent to 40 percent; in *Southwest Gas*, the company's equity was

⁴ The Company cited *Far West Water and Sewer*, Decision No. 69335 (February 20, 2007); *Arizona Water Co. (Western Group)*, Decision No. 68302 (November 14, 2005); *Chaparral City Water Co.*, Decision No. 68176 (September 30, 2005); *Arizona Water Co. (Eastern Group)*, Decision No. 66849 (March 9, 2004); and *Rio Rico Utilities*, Decision No. 67279 (October 5, 2004).

⁵ The Company cited *Arizona-American (Mohave)*, Decision No. 69440 (May 1, 2007); and *Southwest Gas Corp.*, Decision No. 68487 (February 23, 2006).

1 increased from 37 percent to 40 percent for purposes of establishing the cost of equity. Gold Canyon
2 asserts that these minor hypothetical capital structure adjustments are the exception rather than the
3 rule in Commission Orders and that they are significantly different from RUCO's proposal to reduce
4 Gold Canyon's equity ratio of 100 percent to a hypothetical level of 60 percent.

5 30. The Company claims that RUCO's real motive in proposing a hypothetical capital
6 structure is to lower Gold Canyon's operating expenses by creating a further hypothetical interest
7 expense resulting from the hypothetical debt creation. According to the Company, after assuming
8 Gold Canyon has hypothetical interest expense associated with the hypothetical debt, RUCO next
9 uses the hypothetical interest to calculate the Company's federal and state income tax expenses,
10 thereby calculating a hypothetical reduced income tax obligation, and ultimately fictionally reducing
11 the Company's actual test year operating expenses. Gold Canyon points out that, without the
12 additional hypothetical interest adjustment, simply applying RUCO's proposed hypothetical capital
13 structure to the authorized rate base of \$15,725,787 would actually increase the revenues authorized
14 in Decision No. 69664 from \$1,446,772 to \$1,493,950, increasing the authorized return on rate base
15 from 9.2 percent to 9.5 percent. Gold Canyon argues that it is only by recognizing RUCO's proposed
16 hypothetical debt interest expense that the authorized revenue requirement would be reduced – by
17 over \$205,000. The Company contends that RUCO's recommendation would result in an
18 approximate 10 percent reduction of its authorized revenues, thus reducing the Company's actual
19 authorized return on rate base to 7.24 percent. (GC RH-8 at 16-17.) Gold Canyon claims that Staff's
20 100 basis point reduction to a 9.2 percent return on common equity is a more appropriate means of
21 recognizing the Company's lower financial risk associated with its 100 percent equity capital
22 structure.

23 31. Gold Canyon also argues that RUCO's analysis fails to recognize that a reduction in
24 income taxes would be offset by payment of interest and principal to the lender of the debt. The
25 Company claims that incurrence of debt would reduce its net income from operations and could limit
26 its ability to invest in improvements and pay dividends. (GC RH-7 at 7.) Gold Canyon asserts that
27 companies should not be required to have capital structures consisting primarily of debt as a means of
28 providing a tax shield, especially in the case of smaller companies that may need to undertake

1 significant expenditures for plant additions and replacements. The Company therefore requests that
2 RUCO's request to amend the prior Decision be denied.

3 Resolution of Hypothetical Capital Structure Issue

4 32. We agree with RUCO's hypothetical capital structure of 40 percent debt and 60
5 percent equity. A capital structure comprised of 100 percent equity would be viewed as having little
6 to no financial risk. The proposed capital structure adopted by the Commission will bring the
7 Company's capital structure and weighted cost of capital in line with the industry average and it will
8 result in lower rates for the customers of the system. We therefore adopt a hypothetical capital
9 structure of 40 percent debt and 60 percent equity.

10 33. We believe that RUCO's recommendation for a 8.60 percent cost of equity capital is
11 appropriate, and will adopt it in this case. RUCO's expert witness relied on a DCF model and a
12 CAPM analysis for calculating his cost of equity capital. We believe that adoption of RUCO's
13 recommendations results in just and reasonable rates and charges for Gold Canyon based on the
14 record of this proceeding. We therefore adopt a cost of equity of 8.60 percent, which also results in
15 an overall weighted cost of capital of 8.54 percent.

16 Rate Case Expense

17 34. In Decision No. 69664, the Commission reduced Gold Canyon's request for
18 recognition of rate case expenses in the amount of \$160,000 to \$70,000, amortized over four years,
19 on the basis that the Company failed to provide to Staff and intervenors necessary documentation to
20 support the request.

21 35. Although no party requested rehearing on the issue of rate case expense, during the
22 Staff Meeting in which RUCO's request for rehearing was granted, the Commission also indicated an
23 intent to reconsider the issue of rate case expense. (See Procedural Order issued August 23, 2007.)

24 36. Gold Canyon argues that, pursuant to the requirements of A.R.S. § 40-253, because
25 no party raised the issue of rate case expense through a request for rehearing, the Commission may
26 not now consider whether the \$70,000 rate case expense allowance should be modified. However,
27 the Company contends that the Commission may grant an allowance for rate case expenses incurred
28 during the rehearing phase of this proceeding and requests that the Commission approve an additional

1 amount of \$90,000 for rehearing rate case expense. Gold Canyon claims that Staff and RUCO were
2 provided unredacted copies of the Company's rehearing expenses, but Staff declined to recommend
3 granting recognition of such expenses, and RUCO took no position regarding the request.

4 37. We do not believe that the parties presented sufficient evidence on the issue of
5 rehearing rate case expenses incurred by Gold Canyon to support the adjustment suggested by the
6 Company. We therefore decline to adjust the amount for rate case expense authorized in Decision
7 No. 69664.

8 CONCLUSIONS OF LAW

9 1. Gold Canyon is a public service corporation within the meaning of Article XV of the
10 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-367, 40-202, 40-321, and 40-361.

11 2. The Commission has jurisdiction over Gold Canyon and the subject matter set forth in
12 the Company's rate application and in RUCO's Application for Rehearing.

13 3. Pursuant to A.R.S. § 40-253, the Commission has considered the evidence and
14 arguments presented by RUCO, Gold Canyon, and Staff pertaining to the Commission's grant of
15 rehearing to RUCO on the issues of excess capacity and hypothetical capital structure, as discussed
16 hereinabove.

17 ORDER

18 IT IS THEREFORE ORDERED that Gold Canyon Sewer Company's rate base be reduced by
19 \$1.0 million as discussed herein and that Gold Canyon Sewer Company submit by November 30,
20 2008, for Commission approval, rates and charges revised per this rate base reduction. These revised
21 rates and charges will be applied on a prospective basis and will not be applied retroactively.

22 IT IS FURTHER ORDERED that the revised rates and charges shall become effective the
23 first day of the month after they are approved by the Commission.

24 ...

25 ...

26 ...

27 ...

28 ...

IT IS FURTHER ORDERED that the weighted cost of capital approved in this case shall be 8.54 percent and that Gold Canyon Sewer Company submit by November 30, 2008, rates and charges revised per this cost of capital. These revised rates and charges will be applied on a prospective basis and will not be applied retroactively.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

for William G. Marshall by Kim E. Miller
COMMISSIONER

Jeffrey H. Miller
COMMISSIONER

[Signature]
COMMISSIONER

[Signature]
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. MCNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of NOV, 2008.

[Signature]
BRIAN C. MCNEIL
EXECUTIVE DIRECTOR

DISSENT *[Signature]*

DISSENT _____

1 SERVICE LIST FOR: GOLD CANYON SEWER COMPANY

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